

NPL resolution framework Ukraine

FINAL PRESENTATION

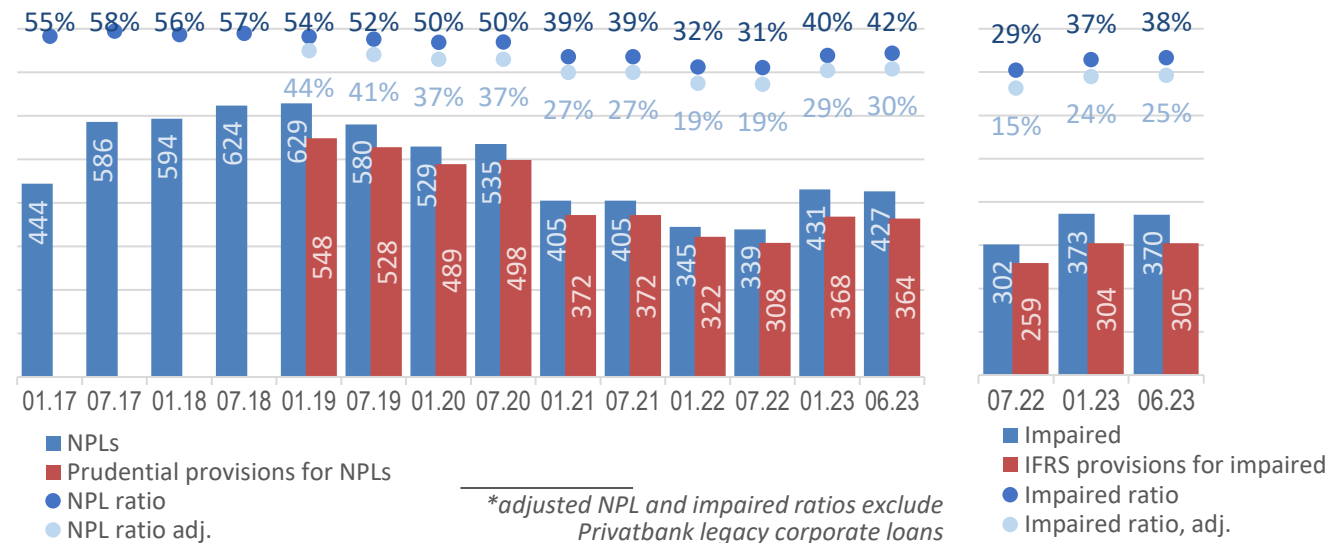
September 2023



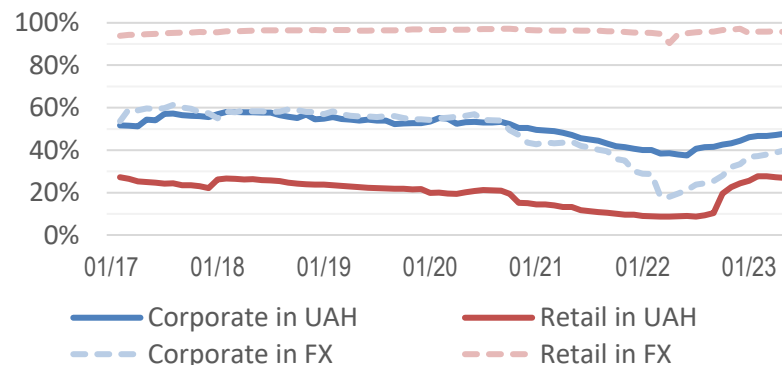
NPL evolution and current situation

- High level of NPLs have been a long lasting concern with several influxes resulting from the GFC, COVID pandemic, and Russia's invasion of Ukraine.
- NPLs are concentrated in the banking sector, partly migrated to the Deposit Guarantee Fund together with other assets of insolvent banks, where most of them were sold through an auction procedure at Prozorro.Sale platform.
- Despite many efforts on the regulatory side and legislative changes, the NPL resolution process still remains slow and with low recoveries.
- As of June 1, 2023 banking system NPLs amounted to \$ 11.7 bn or UAH 427 bn (before deduction of any provisions), including:
 - \$ 9.8 bn corporate loans, of which \$ 4.6 bn are Privatbank legacy NPLs,
 - \$ 1.9 bn loans to households and entrepreneurs.

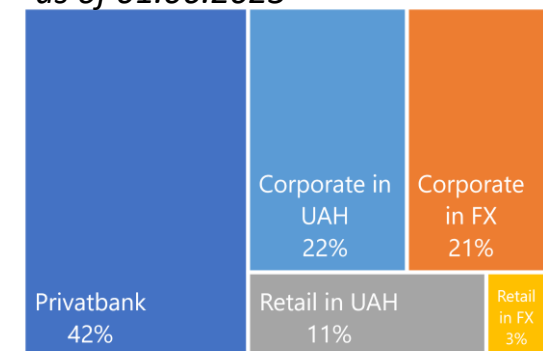
Banking sector NPLs and IFRS impaired loans, UAH bn / %



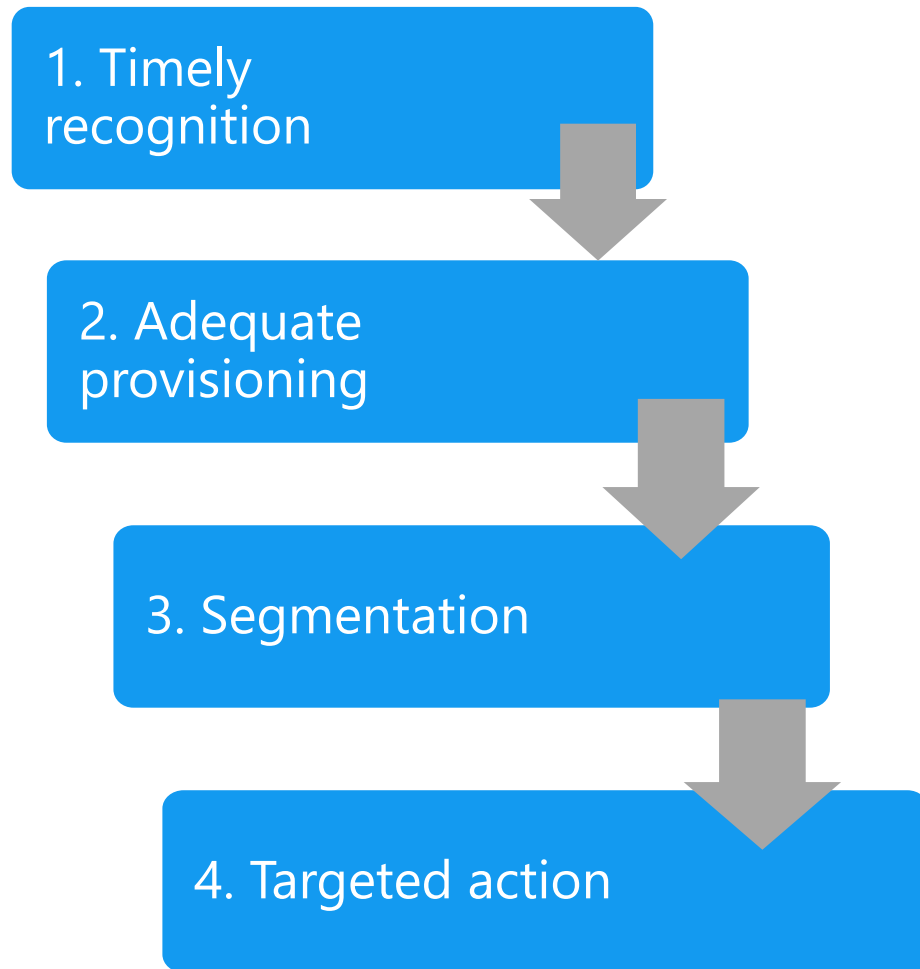
NPL ratio and portfolio structure, %



as of 01.06.2023



Avenues for NPL resolution – general principles



Sale of the Loan



- Simplest option from a legal perspective
- Avoids costly and extended collection efforts
- Often secondary market not available
- Often undesirable when dealing with good clients

Debt Restructuring



- Should be considered when good client viability can be restored
- A rescheduled debt repayment plan is typically the outcome in financial restructurings
- Often operational restructurings are needed, with intervention of other creditors
- Many combinations are possible

Collection & Enforcement



- Pursued where a borrower
 - is uncooperative or
 - has no prospect for rehabilitation
 - legal action through courts is last resort

Problem asset triage informs NPL resolution tools to be applied - Ukraine

Martial law in place

Emergency measures in place:

- Supervisory forbearance in place (Regulation 23)
- Legal forbearance measures (collateral enforcement)

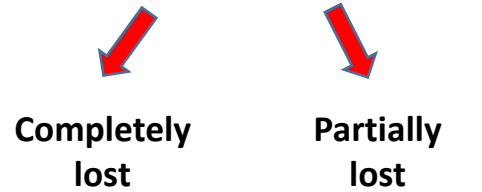


In place as long as needed

Triage

2023 Resilience Assessment

War damaged assets



Resilience exercise identifies the perimeter of these asset groups – end-2023

Legacy NPLs
> 3-5 years old
(originated prior the war)

Borrowers in serious financial difficulties

Borrowers with liquidity problems

Independent AQR

Support to business Support to retail

Independent AQR identifies the perimeter of these asset groups

NPL resolution toolkit

Write-off
(A4, A7, A8)

Transfer to a national war related asset pool? (with or without compensation) (A5, B1, B6)

Legal procedures (collateral enforcement or insolvency) (B2, B3, B4, B5)

Special measures for individuals (B4, C2)

Workout and pre-insolvency (transposition of EU directive and changes to Kyiv approach) (B3, B6)

Public fund to support businesses in financial difficulties, including MSMEs

AMC? (with primary focus on commercial/residential real estate, large corporate loans) (A5, B6, C1)

Methodology used

- Study is based on the framework used by the ECB in its study on “Stocktake of national frameworks related to NPLs” (July 2017) and on the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes
- Initial WB assessment was done in early 2017 followed by a new assessment in Q1 2023
- Benchmark - EU average for 7 high NPL countries used in Pillar A and EU average for all 19 countries used in Pillars B and C
- Charts interpretation - score “5” stands for the worst NPL framework, whereas “0” score stands the best practice NPL framework
- Areas with scores above “3.5” need additional reforms as progress has been limited so far

Progress in improving the NPL resolution framework during 2017-2023

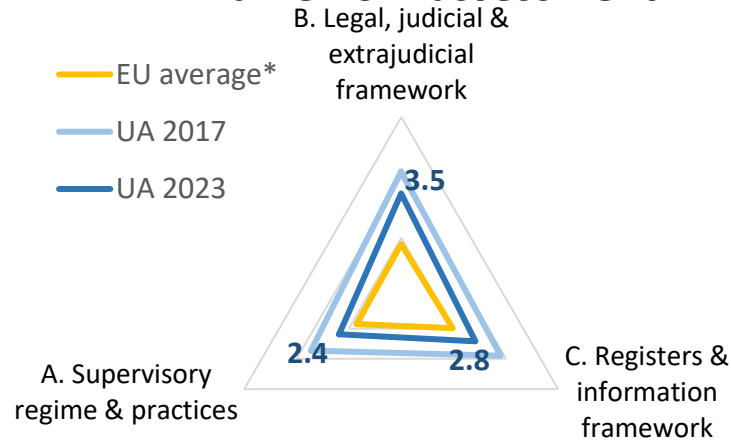
- Assessment of situation in **April 2023**
- **Substantial progress** has been achieved in 4 areas since 2017
- **Progress has been limited** (score still above 3.5) in 6 out of 17 areas
- **Further progress** is required in **several** areas
- **Remaining gaps** to good practice identified

* EU average for Pillar B and C; EU-7 for Pillar A

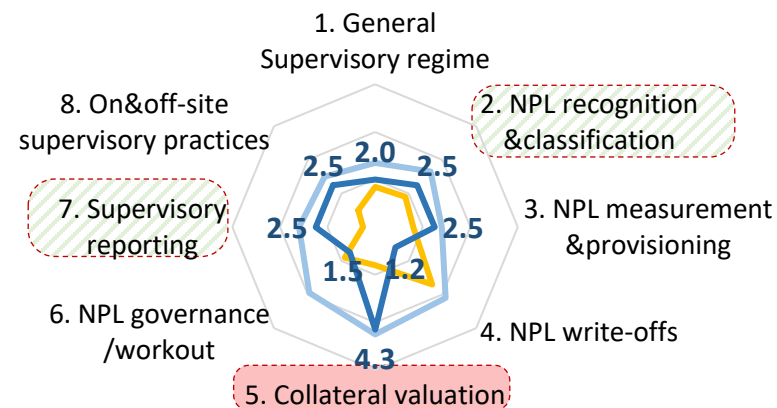
Overdue problem areas

Further progress needed

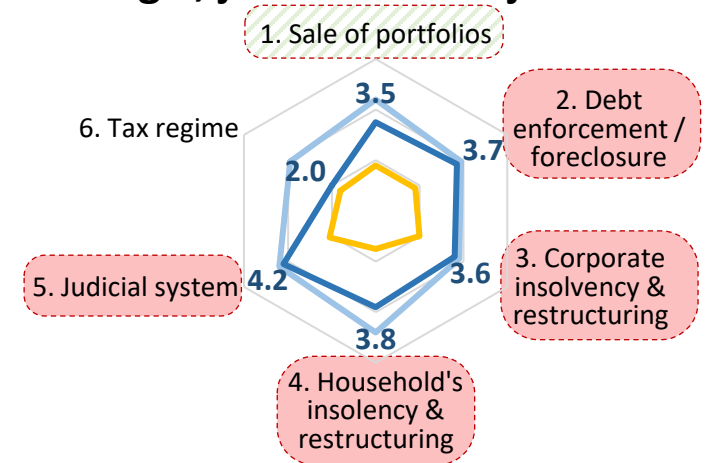
NPL framework assessment



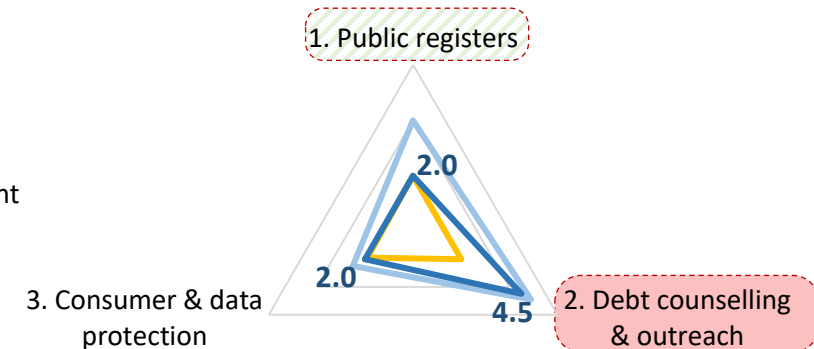
A. Supervisory regime & practices



B. Legal, judicial & extrajudicial

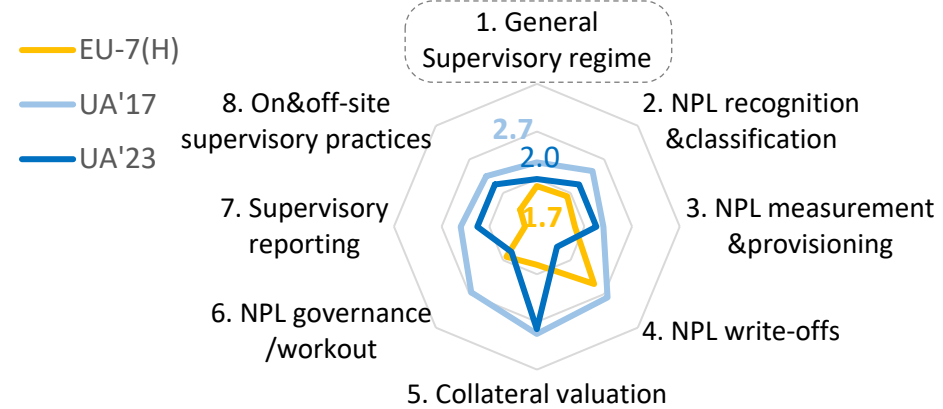


C. Registers & information framework



Progress and WB recommendations under Pillar (A)
Supervisory Regimes and Practices

A.1 General supervisory regime - Credit risk / NPLs



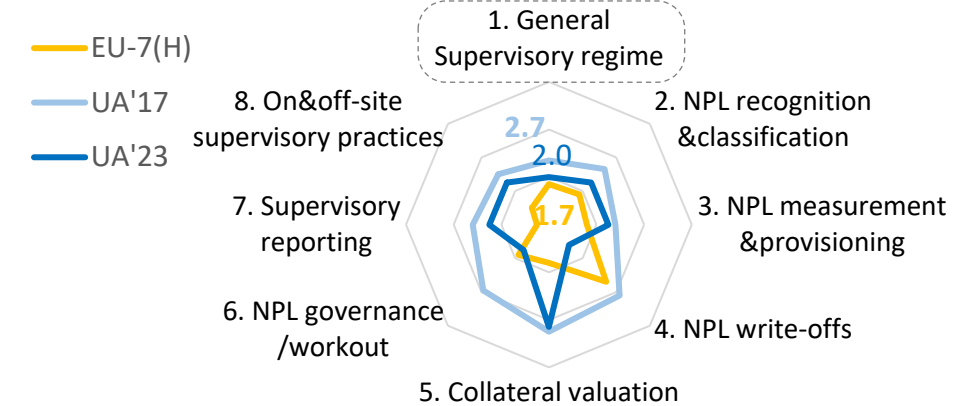
Assessment for Ukraine: 2.0 (April 2023)

- In addition to capital adequacy requirements, the regulator has set requirements and recommendations for:
 - NPL management (#97 of 18.08.2019)
 - Risk management (#64 of 11.06.2018)
 - Prudential credit risk assessment (#351 of 30.06.2016)
- Financial reporting follows IFRS and supplemented with prudential credit risk assessment.
- The NBU improved the framework for the selection of external auditors by banks in 2021. The NBU approved a procedure for rejecting an audit firm selected by a bank.
- Comprehensive Assessment (AQR, ST) has become a regular practice, however, with occasional suspensions (COVID, the war).
- The regulator has a Financial Consumer Protection (FCP) unit that supervises compliance with the Law On Consumer Lending:
 - FCP function has been much focused on information disclosure and recently on debt collection practice.
- The supervisory regime has been modified for the war period by NBU Regulation #23 dated February 25, 2022.

Still gaps for improvement

- Supervision is focused on prudential rules with restrained checks for quality of IFRS reporting, this is also true for AQR and stress-test assessment.
- The regulator restrains itself from issuing good practice recommendations on IFRS application and there is little verification for prudence in accounting policies and reporting, e.g. how different the criteria for credit risk assessment are from prudential views.
- Credit risk Regulation (#351) is not compliant with EBA approaches on loan origination to households (no affordability, suitability requirements). Financial consumer protection is insufficient, e.g. not all components of responsible lending were introduced to prevent new NPLs.
- Provisions for mortgage lending are far away from EU Mortgage Credit Directive (dated 2014), even the definition of mortgage loan relies on type of collateral in Ukraine and not the purpose of lending like in the EU.

A.1 General supervisory regime - Credit risk / NPLs



Progress since April 2017

- The overall supervisory framework significantly improved with new regulations, guidelines and amendments on:
 - risk management (#64, June 2018), including cascading from shareholder choice and risk appetite to strategy, policies, credit risk limits and overall risk management
 - credit risk (#351, June 2016 that replaced #23) liquidated many loopholes and converged towards good practice prudential credit risk management
 - NPL management (#97), including 5% NPL rate criterion for NPL reduction strategy and workout units.
- Related party supervisory unit merged into banking supervision department (expected to be reversed soon).
- Provisions on collateral amortisation for vintage NPLs became effective from February 2019 (within requirements in #351).

EU best practices: Cyprus (H), Estonia (L), Latvia (L) *

- In addition to CRD IV, the national regulators set requirements and/or recommendations for:
 - Loan origination, monitoring, restructuring with goals on NPL prevention, early identification, and effective resolution
 - As for loans to households, provisions of responsible lending are established (affordability, suitability, and disclosure), there is effective financial consumer protection
 - Loan impairment and provisioning
 - Arrears management
 - Sale of loan portfolios
 - Systems for credit risk management: risk appetite, strategy, policy, management responsibility, information systems, risk assessment, and loan administration
- The regulation ensures that banks have system of limits (i.e. LTV, DSTI, FX, max. maturity) in line with credit strategy/policy and risk appetite.
- Limits for loans to households: (1) LTV: Cyprus <80%, Estonia <85%, Latvia <90%, (2) DSTI: Cyprus <80%, Estonia <50%, (3) maturity (Estonia <30 years for mortgages).

* H – high NPL country; L – low NPL country

A.1 Wartime changes in prudential credit risk assessment

Regulation #23 dated February 25, 2022

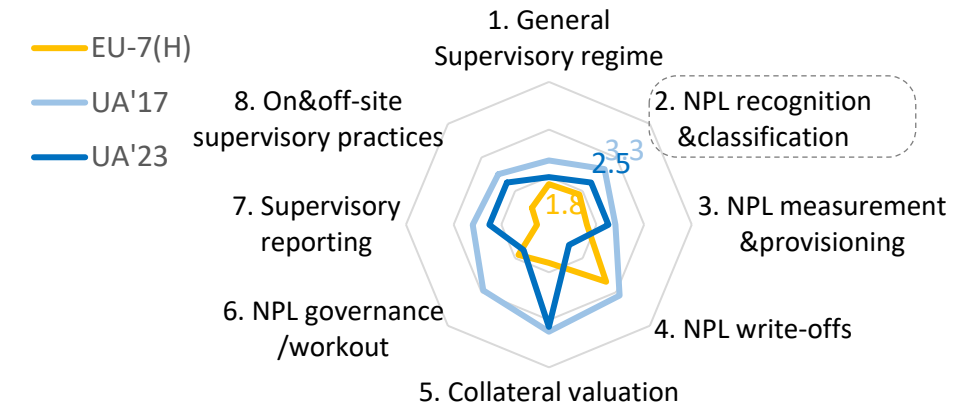
Default definition / NPL recognition

- Items **in red** are suspended for the wartime
- Regulation #351 has two components for default: (1) DPD 90+ and (2) unlikely-to-pay identified by triggers
- Strict triggers:
 - IFRS impairment and/ or $\geq 50\%$ IFRS provisioning rate
 - **Restructured due to financial difficulties and with concessions (forgiveness, capitalized/exchanged interest for 90+days)**
 - Equity swap, **international rating D from S&P /Fitch or C from Moody's**
 - Maturity extension, repeated exchange of assets, borrower has defaulted or had NPL resolution for other debts (reduction, sale with a discount $>20\%$, collateral enforcement)
 - Borrower failed in financial performance or reporting requirements, **used loan modification allowed by loan agreement but that indicates UTP**
 - **Cross-default on other loan in the bank**
- Soft triggers (subject to reasoned objection):
 - **Repaid debt amount is below the accrued income, restructured due to financial difficulties without concessions, modified unless defaulted, interest rate reduction by $>30\%$**
 - Other (less critical) failures in financial performance and reporting
 - **Cross-default based on Central Credit Registry (CCR) information**

Other provisions suspended for the wartime

- As for Credit Risk Regulation #351
 - CCR information is not used in credit assessment
 - No mandatory collateral revaluation and on-site visits
 - State of collateral is evaluated based on all available information
 - Freezing haircuts on collateral value for vintage NPLs
 - Sovereign credit rating for Ukraine is fixed as of 24/02/2022
 - Simplified credit assessment threshold of 0.2% is estimated relative to non-decreasing Core capital after 24/02/2022 (fixed or higher if reported so)
 - DPD were not counted during 24/02-30/06 2022
 - Credit assessment of bank-debtors may remain as of 24/02/2022
 - Delays in subsidised interest payments are counted only from 181 day
- As for NPL Management Regulation #97
 - CCR information is not used in early warning and regular credit analysis
 - No mandatory transfer to work-out unit for restructured loans with financial difficulties caused by the war
 - No updating for NPL management strategy and its implementation plan
 - NPL reduction targets are reasoned judgments of the banks
- As for Risk Management Regulation #64
 - No stress-testing for credit, liquidity, interest and market risks
 - No verification for valuation of collateral and foreclosed assets
 - No updating for internal policies and procedures

A.2 NPL recognition and classification*



Assessment for Ukraine: 2.5 (April 2023)

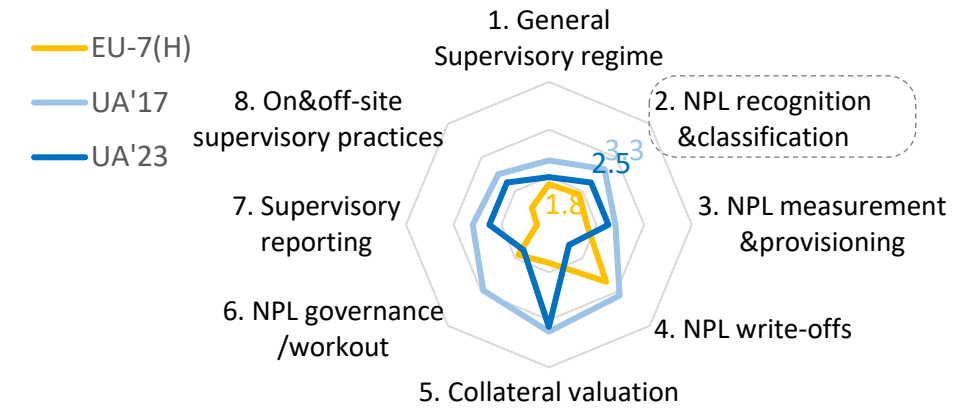
- Regulation #351 with amendments has partly converged to EBA requirements. It has:
 - Econometric model to estimate PD ranges (credit quality categories) for corporate borrowers
 - Household loans are predominantly assessed by DPD and a relaxed repayment capacity evaluation
 - Extensive but non-exhaustive list of triggers for default recognition and criteria for exit from default
 - Provisions for reasoned judgements in credit quality assessment
 - Gradual amortisation of collateral value for vintage NPLs.
- Regulation #97 introduced a good practice framework for NPL management, including
 - Early recognition and action
 - Capability to define and execute the most efficient resolution.

Still gaps for improvement

- NBU **prudential rules** converged closely to EBA ITS as **for NPL definition**, but there are still some **differences** for UTP triggers, default exit criteria, exit criteria and monitoring for forbore loans, difference between non-performing assets and defaulted loans.
- There is **insufficient analysis of IFRS credit quality**, the regulator is mostly focused on prudential rules and bank compliance with them.
- Shorter **cure periods**: 6 (not 12) months for exit from default and 0 (not 24) months for **exit from forbearance**.
- There is deficient **risk recognition for forbore loans**, after exiting from default these loans are treated the same as other performing loans.
- There is no regulatory **disclosure of credit quality based on IFRS** similar to FINREP. The granularity could be improved:
 - Disclosures are not compliant with EBA ITS and FINREP
 - CCR does not have sufficient information on IFRS credit quality (stage, LGD).
- The banks expressed an interest in **non-binding guidelines from the regulator for IFRS 9**, e.g. on restructured loans, acquired loans (POCI) and income recognition.

*For the purposes of this assessment, Regulation #23 is not considered as this is a temporary measure.

A.2 NPL recognition and classification



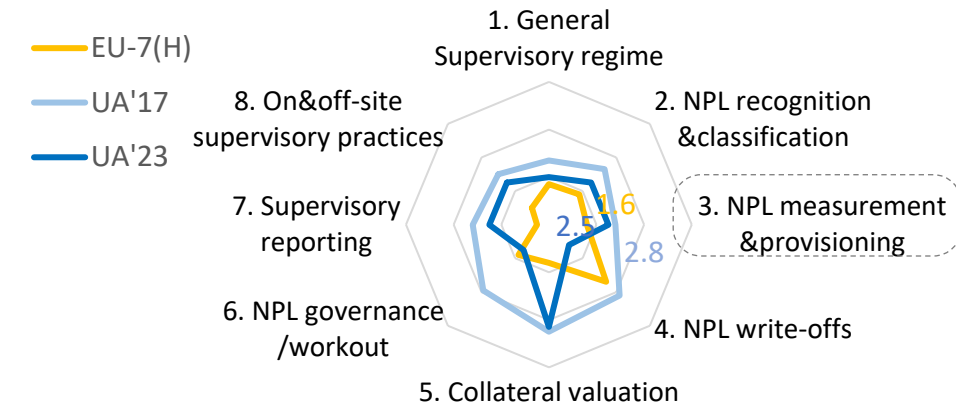
Progress since April 2017

- NPL recognition and reporting improved with new prudential rules and guidelines (#351, #97).
 - NPL definition includes impaired loans, 90+ past due loans, strict UTP triggers, and soft UTP triggers (subject to reasoned judgment).
- Conducted AQR and stress-testing were based on prudential credit assessment (**not IFRS**).
 - Large exposures had special individual stress testing and individually monitored afterwards.
- NBU introduced NPL Management Regulation (#97 in 2019) based on WB FinSAC Guidelines:
 - NPA strategy, including reduction targets and plan
 - NPA operating model (governance, policies, procedures, IT)
 - Early warning system, watch lists, overall management of arrears, and segmentation principles.

EU best practices: Ireland (H), Spain (H)

- Banks are legally required to comply with EBA ITS (NPL recognition and reporting).
- National regulators issue additional criteria for NPL, forborne loans, exit from NPL, and exit from forbearance.
- There are requirements and recommendations for early warning systems and loan portfolio grouping for:
 - performing loans: by ranges of DPD, plus renegotiated and cured
 - non-performing: by ranges of DPD, forborne, foreclosed, and written-off
 - forborne loans are imposed higher PDs and lower cure rates in performing and non-performing sub-portfolios.
- Banks are required to monitor and back-test forborne loans (for viability), the requirement aims to keep records of all modifications and resolution actions and enable analysis of the efficiency.
- The regulator issued non-binding guidelines on IFRS impairment criteria and provisioning.

A.3 NPL measurement and provisioning



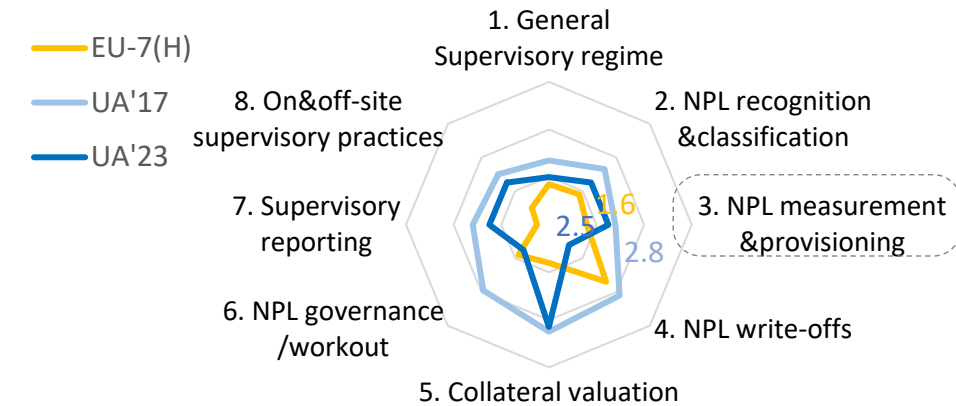
Assessment for Ukraine: 2.5 (April 2023)

- NPL measurement and prudential provisioning are based on credit risk regulation (#351) and Comprehensive Assessments (AQR+ST) that are assumed on regular annual basis since 2018 (though were cancelled due to COVID in 2020 and the war in 2022).
- Supervision and regulatory efforts are focused on fulfilment of the prudential rules.
- Verification of IFRS provisioning and credit quality assessment mostly rely on mandatory annual external audit and internal audit and other assurance procedures.
- Positive difference between prudential and IFRS provisions forms an adjustment to Tier-II capital adequacy.
 - Regulatory attention is more on capital adequacy and less on accuracy of financial reporting.
- Accrued in IFRS interest income is subject to verification and adjustment for capital adequacy purpose.

Still gaps for improvement

- **Comprehensive Assessments** should (i) be based on a relatively stable and trusted methodology that converges to EBA guidelines and (ii) be performed regularly,
 - Including attention to quality of credit assessment in IFRS.
- **Criteria for NPL recognition** (and exit) should converge further to EBA ITS,
 - Including adding the forborne loan category and the exit criteria.
- Providing more **guidelines** on good practice of **IFRS 9 application**. Currently, there is only a recommendation on disclosure in the Note to financial statements: Loans to clients.
- More granular monitoring for prudential provisions may benefit from **monitoring for IFRS provisions** and any differences between them.
- Publishing an **alternative credit risk assessment on collective basis** may benefit small banks that lack data and promote prudent IFRS application.

A.3 NPL measurement and provisioning



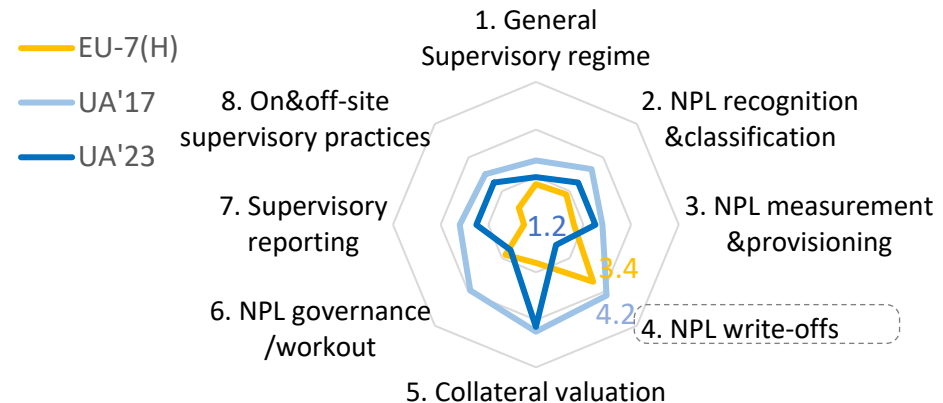
Progress since April 2017

- IFRS 9 was introduced successfully in January 2018.
 - Tax impediments were eliminated for the provisioning expense.
- Credit risk regulation has been amended 29 times since the adoption in mid 2016, including 2 updates for the parametric model on credit quality categories (the last in 2019, but assumed annual updating).
- Guidelines for NPL management introduced methods for early identification and working out.
- There were temporary amendments that eased requirements on credit risk recognition in response to negative effects from COVID pandemic and the war of aggression.

EU best practices: Spain (H), Ireland (H)

- Financial reporting is based on IFRS and national regulators enforce IFRS.
- Regulators also issue guidelines/regulations with criteria for loss/ impairment triggers, incl. macroeconomic, portfolio- and exposure-specific triggers:
 - Criteria for UTP category are qualitative and quantitative (financial ratios of debt-service, financial performance, net worth)
 - Minimum requirements for accounting methods (as for individual exposures and also for collective estimation of risks and provisions)
 - Promotion of conservative approach in early impairment recognition
 - If a bank cannot collect statistics and develop own internal methods for collective estimation, the regulator proposes an alternative solutions (discounts to collateral value and provisioning rates)
 - No accrued interest income is recognised after loan impairment.
- Material unjustified deviations from the guidelines are considered as practices that are not good practice.

A.4 NPL write-offs



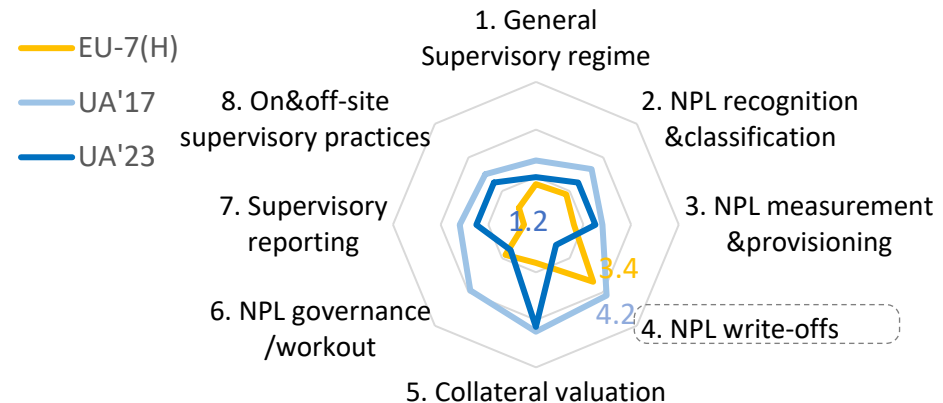
Assessment for Ukraine: 1.2 (April 2023)

- Banks do not face barriers for loan write-offs in full and partial
 - Banks have started revising write-off practices after the NBU defined write-off criteria in **Regulation #49**
 - Tax criteria for write-offs are aligned with regulatory requirements.
- Legal procedures can still be pursued after write-offs.
- **SOBs face challenges** with debt forgiveness and, therefore, with subsequent partial write-off:
 - Bank management fears of future prosecution for debt forgiveness. Even justified decisions by NPVs may be interpreted as insufficient grounds due to unavoidable assumptions and estimates about future performance
 - Managers of SOBs view the **CMU Decree #281** on NPL management at SOBs as sufficient for write-offs but insufficient to enable debt forgiveness.

Still gaps for improvement

- Regulatory guidelines may be supplemented with **criteria on when and how debt enforcement actions should terminate**:
 - Economic analysis and expected recovery vs costs
 - Legal conditions (death of borrower, liquidation)
 - How long off-balance sheet records may last for the loans.
- Enabling **debt forgiveness at SOBs** remains an unresolved issue. This may significantly influence and limit resolution options.
 - For example, a viable restructuring may not be possible without principal forgiveness.
 - In cash flow analysis, interest concessions are the same as principal concessions, thus, interest concessions are used more when principal concession are restricted.
- Possibly, for **unrecoverable NPLs caused by damages from the war**, the write-off criteria may be revised in the Tax Code and to allow faster write-offs.

A.4 NPL write-offs



Progress since April 2017

- Major impediments for NPL write-off were removed, including
 - Limit for tax deductibility,
 - Ambiguity when write-off can be conducted (by NBU Regulation #49 dated 13.04.2020, CMU Decree #281 dated 15.04.2020 for SOBs).
- Specifically with focus on SOBs, provisions were established in CMU Decree #281 for debt write-down (forgiveness). However,
 - These provisions give a right to write-down debt to borrowers and then write-off
 - Using the right to write-down does not exclude risks of future prosecution of SOB management for “caused losses”.

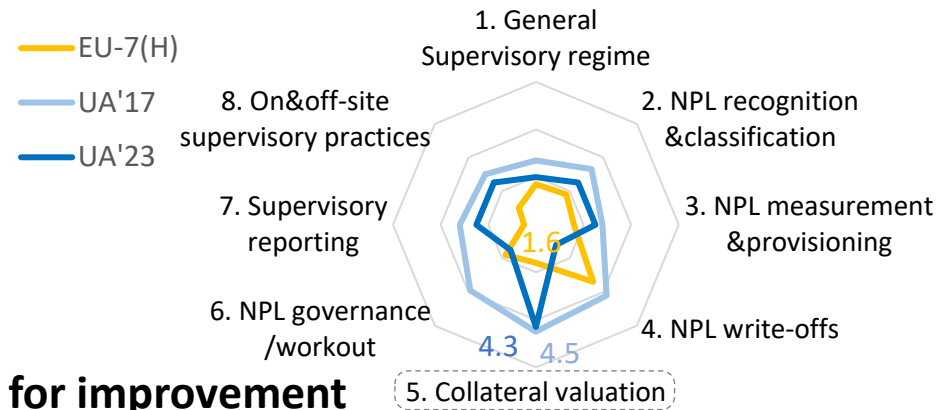
EU best practices: Slovenia (H), Spain (H)

- Regulators issued a set of rules for de-recognition based on individual analysis and respective conclusions about remote probability of recovery:
 - Insolvency court process with liquidation phase (to be) declared
 - Solvency unrecoverable deterioration
 - Prolonged past due loans: 3-4 years for secured, 1 year for unsecured.
- Regulator may establish incentives for write-offs with extra capital charges.
- Tax treatment does not impose charges for write-offs and there are no tax criteria for write-offs.

A.5 Collateral valuation

Assessment for Ukraine: 4.3 (April 2023)

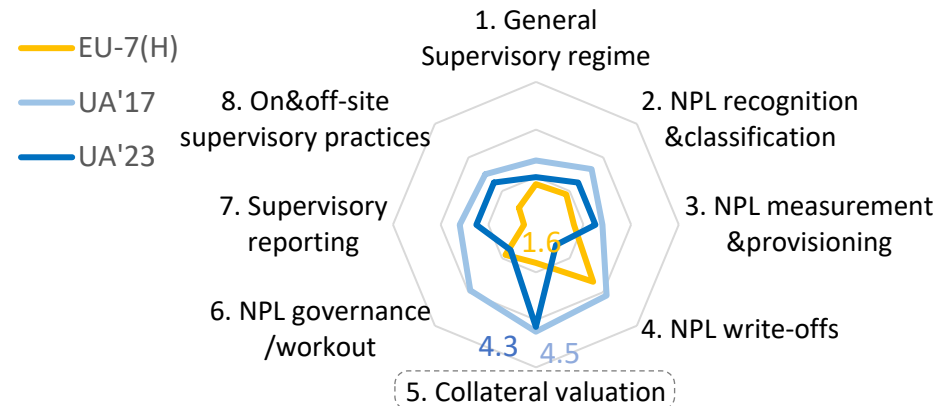
- Valuation standards are set by 4 laws that are **deeply outdated**.
- Land and property valuation is supervised by two different entities – SPF and the StateGeoCadastre.
- The appraisal profession is regulated by the SPF: (1) licencing of individual appraisers and appraisal companies, (2) supervision over the professional conduct.
- Court appointed valuers are not bound by general valuation framework in Ukraine.
- NBU runs a registry for appraisers with negative review, whereas the SPF licences and supervises the profession.
- NBU Regulation #351 has provisions on prudential credit risk assessment for (1) collateral acceptability, (2) requirements for frequency of appraisal, and (3) requirements for appraisers experience, reputation, and appraisers rotation:
 - No requirements on acceptable methods of valuation
 - No guidance on good practice for IFRS reporting.
- No specific requirements on foreclosed assets valuation.
- International valuation standards do not have official recognition and endorsement.
- The NBU relies on private service for real estate price indexes.



Still gaps for improvement

- There is a draft law (#7386) that resolves **two major issues**:
 - Endorses international valuation standards in Ukraine
 - Consolidates valuation of land plots and real estate.
- NBU may improve credit risk assessment further with:
 - Requirements on **acceptable valuation methods** for different types of collateral
 - Guidelines on good practice for IFRS reporting on collateral and LGD.
- There is no system-wide and reliable sources **for valuation benchmarking**:
 - At present, the only source of indexes is Uvecon private company and its quarterly reports,
 - The indexes of the SPF database are viewed to be skewed down due to prevalent representation of appraisals for tax purposes.
- NBU** may consider establishing a **database for collateral value** and real estate prices.

A.5 Collateral valuation



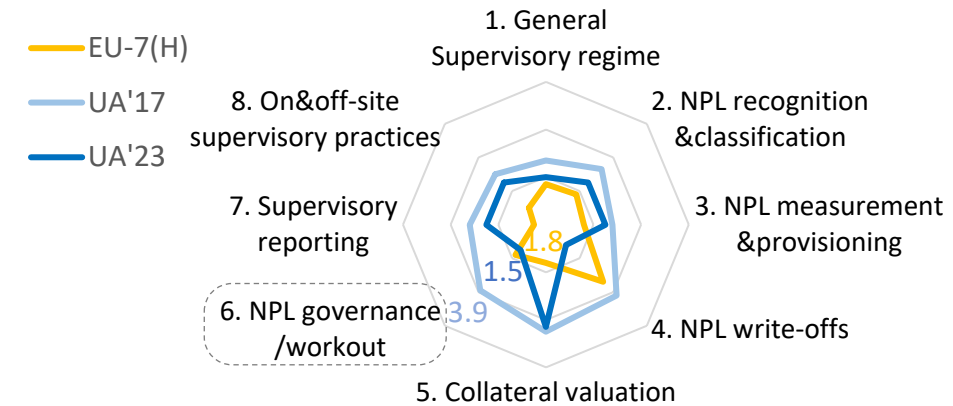
Progress since April 2017

- Regulation #351 has strengthened prudential requirements on collateral valuation, appraisers, and frequency of valuation.
- The NBU may include appraisal companies and individual appraisers in a special list based on documented negative reviews on appraisal reports (started in 2018).
- The SPF runs registries for licenced appraisers and appraisal companies and imposes sanctions for professional misconduct.
- The SPF has introduced electronic database with appraisals and an open access for benchmark analysis.

EU best practices: Spain (H), Portugal (H), Germany (L)

- There is a certifying authority for the appraisal profession.
 - In Spain, in case of real estate collateral, only appraisal companies may do valuation and are registered and supervised by the central bank.
- Requirements for minimal frequencies for collateral valuation depending on (1) type of collateral, (2) amount of the exposure, and (3) loan credit quality.
- In addition to CRR art. 208 requirements, there are national requirements on the use of valuation methods for collateral, e.g.:
 - (1) for immovable property – cost, comparison, income methods and residual methods,
 - (2) other types of collateral – market value,
 - (3) collateral recovery should be based on historical data and conservative assumptions and carefully take into account recovery cost and time,
 - (4) foreclosed assets are classified as non-current assets for sale under IFRS 5 and valued at the lower of (i) net-present value less selling costs, (ii) the amount of debt foreclosed.
- For monitoring collateral value statistical methods may be used or external (or internal) indices, but any upward revisions should be based on independent appraisal (or validation by independent entity).

A.6 NPL governance /workout



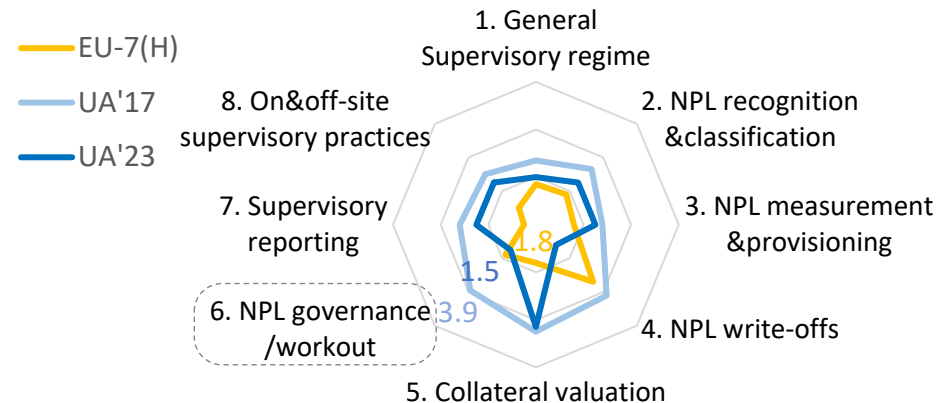
Assessment for Ukraine: 1.5 (April 2023)

- NBU Regulation #97 on NPL management was a significant step forward towards EU good practices:
 - Workout units organisation and subordination
 - Early warning systems
 - Mandatory loan transfer to workout units
 - Banks with NPL level above 5% threshold are required to develop NPL reduction strategies and operational plans, and submit and regularly report to the regulator on implementation.
- There are provisions for cross default recognition based on information in the CCR.

Still gaps for improvement

- Further supervision and **improvement of practices** promoted by Regulation #97 are expected:
 - Particularly for viability of **restructured loans**
 - Performance of **POCI loans**
 - **Exits from default** status
 - Monitoring and **exits from forbore** status.
- NBU capacity development and **guidelines for supervision of NPL reduction strategies** and operational plans.
- **SOB capacity in credit risk and NPL management** has to be developed so that all the resolution options are available and comparable with the private banks:
 - Focus on making possible fair **debt forgiveness and opening access to the NPL market**
 - Outstanding issues in the **procedure for selection and appointment of independent board members at SOB**.

A.6 NPL governance /workout



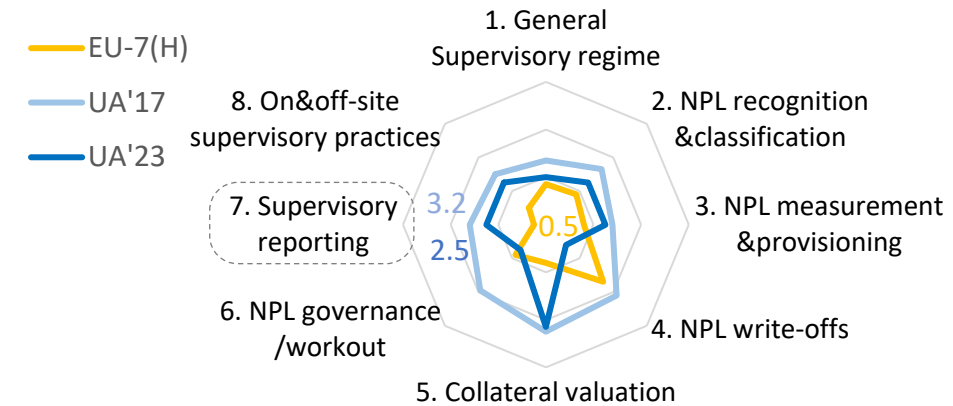
Progress since April 2017

- The new Regulation #97 on NPL management was introduced in July 2019.
- The banks have benefited from the requirements and improved NPL management.
- SOBs have implemented the same requirements and also had legislative change for improving corporate governance, however, SOBs still lack integrity for effective resolutions:
 - Debt forgiveness as a component of sustainable restructuring is viewed as not possible option due to risk of future prosecution for losses,
 - Sale of NPLs rarely used.
- General SOB governance was improved with: (1) changes on appointment of Supervisory Boards: Law #2491-VIII dated July 2018 and CMU Decrees #159 and #267 both in 2019 (2) MoF approved strategies for SOB development.

EU best practices: Slovenia (H), Ireland (H)

- Efficient NPL resolution requires that banks have appropriate experience, expertise, and resources. Regulators issue requirements and guidance to facilitate efficient NPL resolutions:
 - Dedicated NPL workout units are created depending on volume of NPLs, the workout units must be separated from origination and performing loan units
 - Large exposures are approached with individual resolution analysis, whereas loans to SME and households are treated more with a systemic and standardised approach
 - Restructuring options should have due verification for viability
 - Creditors cooperate to enable fair recovery
 - Banks develop and submit to the regulator NPL management plans, NPL reduction strategy, if appropriate.
- In Ireland, the regulator published (1) a Code of Conduct on Mortgage Arrears (CCMA) and (2) a Code of Conduct for Business lending to SMEs:
 - (1) Provisions for consumer protection for distressed mortgage borrowers (for primary residence and for cooperative borrowers only)
 - (2) Sustainable solution, arrears management, borrower engagement, financial analysis, IT systems, data collection, and utilization.

A.7 Supervisory reporting



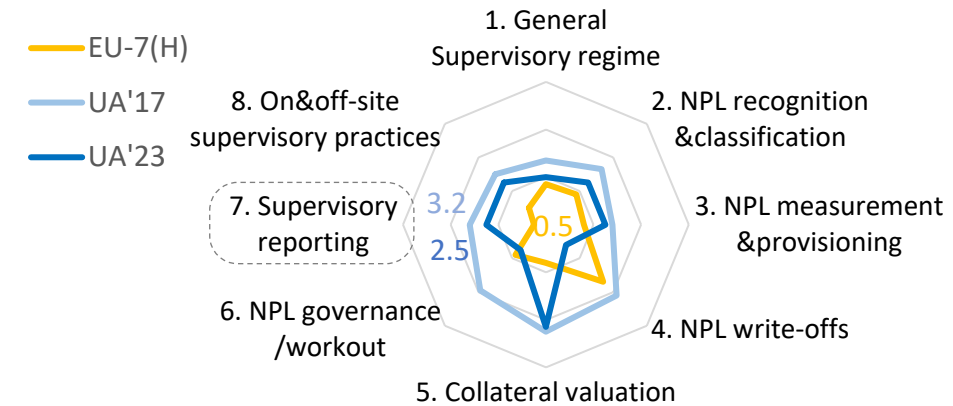
Assessment for Ukraine: 2.5 (April 2023)

- There is an **extensive system of prudential and financial reporting** to the NBU.
 - However, the credit risk disclosures are predominantly based on **prudential rules with little IFRS disclosure**.
- The NBU provides public disclosures for aggregate and bank-individual prudential NPL breakdowns on monthly basis.
 - The disclosure is currently suspended due to the war of aggression.

Still gaps for improvement

- Implementation of **FINREP NPL-related templates** (to some extent it was expected in 2H 2022 but postponed to 2024):
 - On NPLs and credit quality: 18.0, 18.1, 18.2, 23.1, 24.1, 24.2, 24.3
 - On foreclosed assets: 25.1, 25.2, 25.3
 - On forborne loans: 19, 26.
- **EBA NPL transaction templates** are to be considered as mandatory disclosures to facilitate transparent and effective **NPL sale market**.
- Long-standing deficiencies persist:
 - **Mortgage loans** are defined by collateral type (not by loan purpose)
 - No universal **SME client group definition**, no uniform approach to business group identification to clean SME category.

A.7 Supervisory reporting



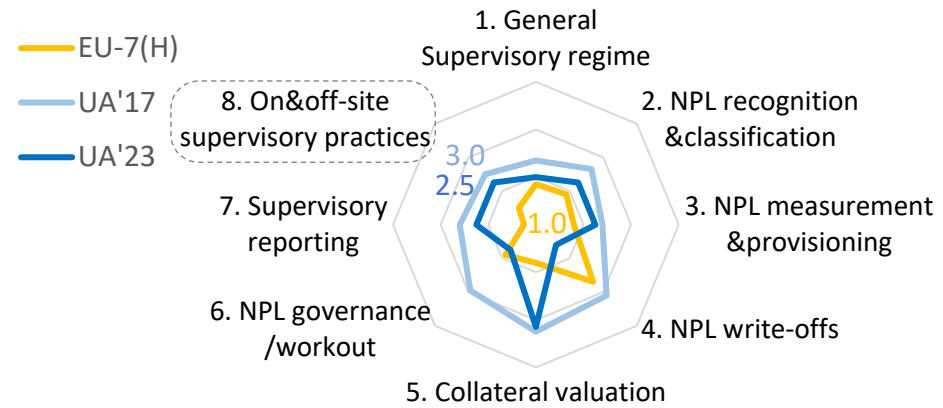
Progress since April 2017

- After Regulation #351, prudential reporting for NPLs was modified and public disclosure included:
 - Breakdowns for individual banks by currency, customer (legal entities, individuals), economic sector.
- Aggregate and individual bank results for Comprehensive Assessment were also disclosed.
- Banks started to report on fulfilment of NPL reduction strategies and operational plans (on quarterly basis).
- New standard of mandatory chart of accounts was introduced in January 2018 and improved transparency in financial and prudential reporting.
- NBU improved disclosures for individual banks: trial balances, prudential requirements.

EU best practices: Italy (H), Spain (H)

- The national regulator sets NPL reporting requirement beyond EBA ITS:
 - Monthly reporting to CCR on borrowers: exposure, collateral, write-off
 - Within 3 days reporting on borrower status change
 - Reporting NPLs by economic sector, region, flow amount for each category, provisions reconciliation, collateral type and value, LTV, other security (guaranteed), forborne loans.
- Extensive standards for NPL disclosure templates are established within FINREP, useful for active management, incl. sale perspective:
 - Non-performing exposures: 18.0 on loans classification, 18.1 on NPL inflows and outflows, 18.2 on loans secured with commercial real estate, 23.1 on number of exposures, 24.1/2/3 flows by source and resolution type
 - Foreclosed collateral: 25.1 on flows, 25.2 on types, and 25.3 on respective debt reduction
 - Forborne exposures: 19 on aggregate structure, 26 by type of modification.
- Off-site and on-site supervision provide verification for NPL reported quality.
- Regulator publishes on monthly and quarterly basis comprehensive disclosures on NPLs: stock and flow breakdowns.

A.8 On and off-site supervisory practices



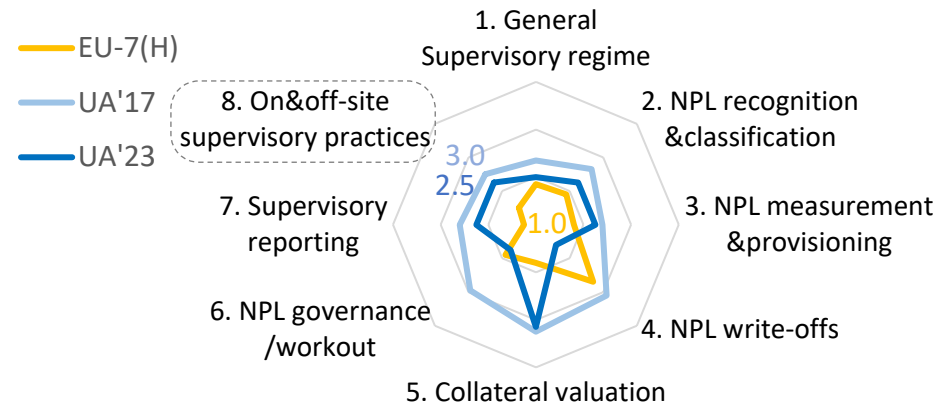
Assessment for Ukraine: 2.5 (April 2023)

- The supervision follows risk-based and thematic analysis.
- Bank supervisors have possibility, when appropriate, to observe key management events: shareholders meeting, board meetings, credit committees, other committees, etc.
- **Comprehensive Assessment** (AQR, ST) is a regular practice to complement on-going on- and off-site supervision.
 - Its regularity and methodological basis is defined by NBU Regulation #141 dated December 2017
 - Comprehensive Assessment is focused on prudential credit risk categories and prudential provisioning.
- The NBU is approaching full implementation of **SREP supervisory framework**:
 - Risk-based and forward looking evaluations
 - Use of business model bank grouping for peer analysis
 - Special treatment for (i) large exposures, (ii) exposures to related parties.

Still gaps for improvement

- There should be more attention to **IFRS credit quality** assessment:
 - For reasons for differences with prudential assessment,
 - As historical credit performance may be a useful source for prudential estimates (discounts to collateral value, cure rates etc.).
- **SREP is still missing the core component**, ICAAP, which was postponed to 2024.
- **Comprehensive Assessment methodology** should converge further to EBA framework and the quality of an independent AQR is critical.

A.8 On and off-site supervisory practices



Progress since April 2017

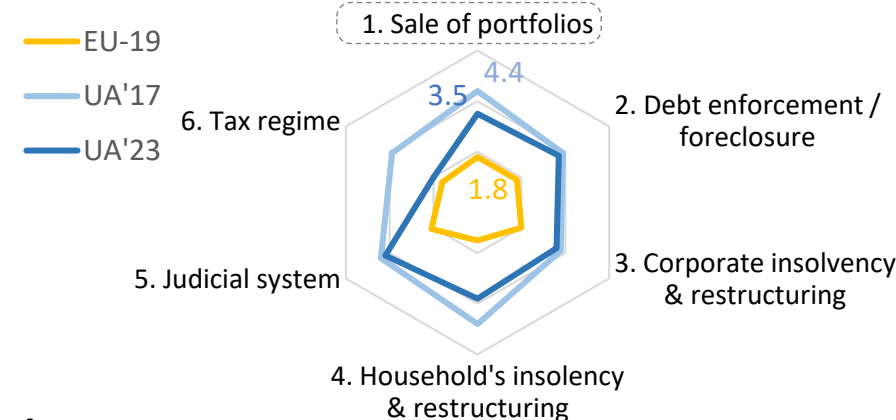
- Significant process to risk-oriented supervision and towards SREP framework.
- Deepening supervisory focus on arrears and NPL management, particularly after the introduction of risk management (#64) and NPL management (#97) regulations.
- Comprehensive Assessment has become a regular practice: 24 large banks in 2018, 29 large banks in 2019, 30 large banks in 2021, 20 large banks in 2023 (Resilience Assessment).
- The Resilience Assessment is assumed as of April 1, 2023:
 - Verification of prudential reporting and stress-testing are conducted by NBU staff, jointly by banking supervision and financial stability departments.
- ICAAP requirements are set in NBU Regulation #161 dated December 30, 2021.

EU best practices: Italy (H), Spain (H)

- On-site and off-site supervision efforts are focused on the same issues identified by risk-oriented assessment:
 - Off-site: verification using key risk indicators, benchmark analysis (for credit categories, collateral valuation, LGD, provisioning rates), review of internal credit policies. If risks are identified then deeper analysis follows, meetings with management, intervention letters, and in some cases on-site supervision actions
 - On-site: verification of loan classification and provisioning through loan files reviews, credit policies and practices (processes, responsibilities, information sources, trigger definition, and controls),
 - As for NPL, the focus is on (1) recovery estimation from collateral, other streams, recovery time, (2) choice of resolution method and its efficiency.
- Regulator has internal manuals that are comprehensive but non-exhaustive.
- There is centralised assessment of large corporations with exposure across the whole banking system.
- Bank specific NPL-related cases are analysed jointly by off and on-site teams.
- Depending on NPL burden regulator may conduct thematic reviews.

Progress and WB recommendations under Pillar (B)
Legal, Judicial, and Extrajudicial

B.1 Sale of portfolios



Assessment for Ukraine: 3.5 (April 2023)

- DGF is a dominant player in the NPL market through the Prozorro.Sale platform (Dutch and English auction systems). In 2022, UAH 1.52 billion of assets were sold in 1,659 auctions.
- While loan purchase by the owner or the guarantor is forbidden, there are indications of indirect participation of former borrowers in auctions.
- There are no major tax impediments in place for NPL investors, but further clarifications from the Tax Authority regarding tax aspects from loans sales would be welcome.
- However, the legal NPL resolution is still slow and costly and is perceived as not reliable for foreign investors; hence, the focus on retail unsecured loans and not on secured or corporate loans.
- Recovery rates are low.

Still gaps for improvement

- **EBA NPL transaction templates** are to be considered as mandatory disclosures to facilitate transparent and effective NPL market.
- **Prozorro.Sale** platform is a good tool for making auctions. However, it is not a full-fledged platform for NPL sales with additional services usually available on other international platforms – data rooms, analytical tools, standardized transaction templates, post transaction services. There is **room for improvement**.
- **Tax interpretation for loan sales/assignments** to non-financial company counterparties is still necessary.
- Amendments to the Law “On **Financial Services and Financial Companies**” would be welcome. NBU is currently working on this, including on amendments in licensing and registration, with the aim to improve asset transferability and servicing framework.
- Enhance the regulatory framework for **loan collection companies**, focused on the introduction of market conduct supervision.
- Further encourage NPL disposal by SOBs at market terms.

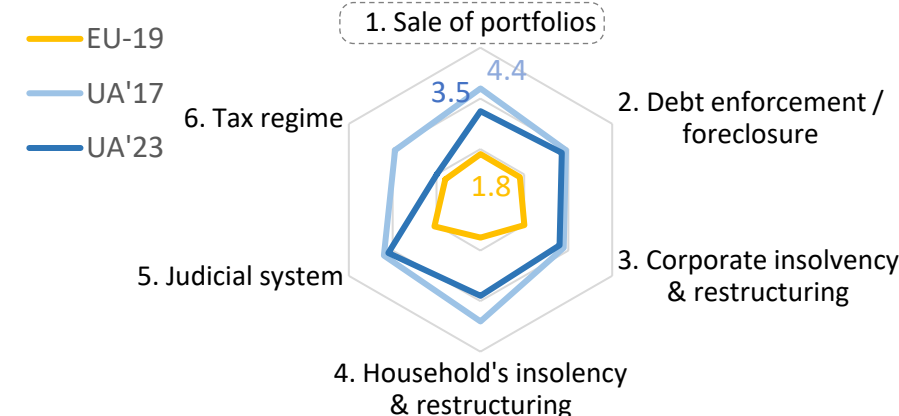
B.1 Sale of portfolios

Progress since April 2017

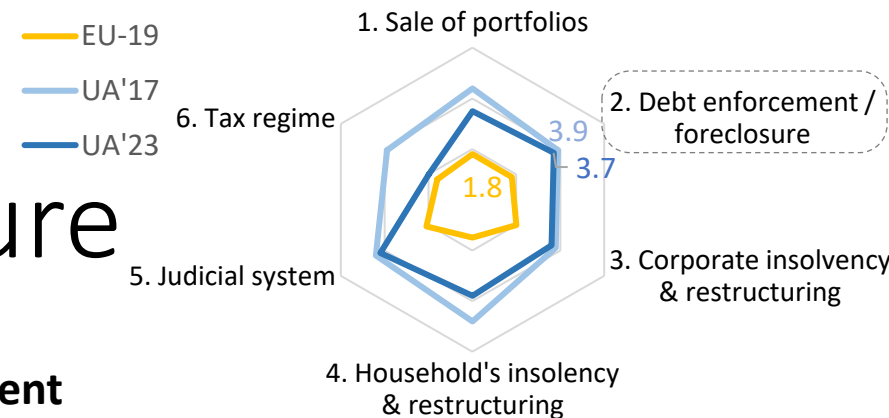
- CMU Regulation #281 increased level of protection for SOB Supervisory Boards and Management to realize accumulated credit losses via sale of NPLs with discount.
- Prozorro.Sale has proved to be a good tool for auctioning NPLs but there is still room for improvement.
- First sales of credit rights on Prozorro.Sale by SOBs executed in July 2021.
- Undeveloped market of NPLs/lack of participants often leads to sales on the last stage of the auction with significant discount to gross value – recovery rate in bulk sales (revenue from sales to balance value) is on average low due to the low quality of assets transferred to DGF as part of the bank liquidation process.
- Adoption of the law on debt collection companies in March 2021.
- Some tax impediments removed but need clear guidance from the Tax Authority on tax implications for the sale of loans.

EU best practices: Ireland (H), Spain (H), Slovenia (H)

- There are no legal impediments to the sale of loans. Legal framework allows loans transfer to third parties together with linked collateral without debtor consent but with notification requirement.
- There are private and in some countries public-sponsored asset management companies (AMC) with focus on distressed debt management.
- There is strong interest for NPL acquisitions from various financial intermediaries and other investors.
- Equal opportunities for local and foreign NPL investors in the country.
- Asset purchase in auctions by previous owners or their representatives is explicitly forbidden in many EU countries (Ireland, Slovenia) due to moral hazard. In Ireland, auction participants or lawyers representing them sign a declaration to obey the legal requirements for former borrowers not to participate in auctions. The violation of this requirement can involve legal actions against the participant. Signing such declaration has become a market standard. In Slovenia, all bidders are required to disclose their beneficial owners. Bidders are eliminated from the list of buyers if they fail to provide this information.



B.2 Debt enforcement /foreclosure



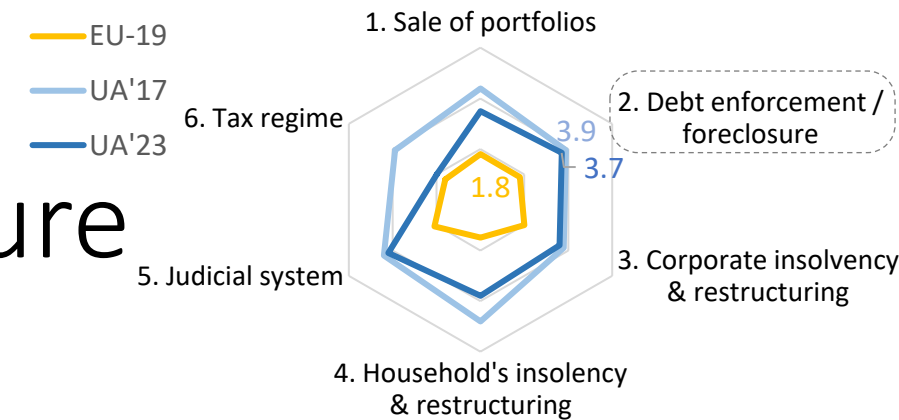
Assessment for Ukraine: 3.7 (April 2023)

- Improved out-of-court enforcement due to 2018 legislative change, but debtors still create challenges/appeals in courts, delaying the process.
- Enforcement challenges due to occupied territories, destroyed infrastructure, and decreased collateral value due to the ongoing war.
- Moratorium on enforcement of loans against individuals makes debt recovery harder, coupled with lengthy court processes and delays exacerbated during the war.
- Private bailiffs tend to be more effective than state bailiffs; however, issues of unequal rights, supervisory oversight, transparency, and compensation remain critical in the bailiff profession.
- Lack of digitalization, such as the disconnection of banks from the electronic enforcement system, leads to inefficient enforcement processes and bureaucratic hurdles.

Still gaps for improvement

- Need for more private bailiffs to boost enforcement capacity and improved cooperation between courts and bailiffs.
- Address court challenges and delays in the out-of-court process by improving the application of legislation and strengthening the court's role in ensuring a fair and efficient enforcement process.
- Amend Article 625 of the Civil Code of Ukraine to better reflect fair interest rates for overdue monetary obligations, promoting timely loan repayments and discouraging distorted debtor incentives, ultimately improving debt enforcement and foreclosure practices.
- Reevaluate enforcement moratoria and temporary measures with the aim of maintaining a balance between protecting debtors and creditors' interests, while ensuring efficient debt enforcement and minimizing unintended negative consequences.
- Enable expedited resumption of duties of private bailiffs affected by war, and foster equal rights and treatment for private and public bailiffs.
- Address the issue of private bailiffs' 10% flat rate fee, which may lead to distorted incentives and potential collusion with client representatives in high-profile cases.
- Enhance enforcement actions' efficiency by introducing court fees for debtors challenging bailiff actions to limit frivolous appeals.
- Decrease bureaucracy, encourage digitalization, and promote the connection of all banks to the electronic enforcement system to maintain efficient legal and financial processes during war-related disruptions, overcoming challenges posed by limited physical interactions and disrupted services.
- Implement a 'title transfer collateral arrangement' mechanism to streamline the transfer of right of claim without altering underlying collateral registration.

B.2 Debt enforcement /foreclosure



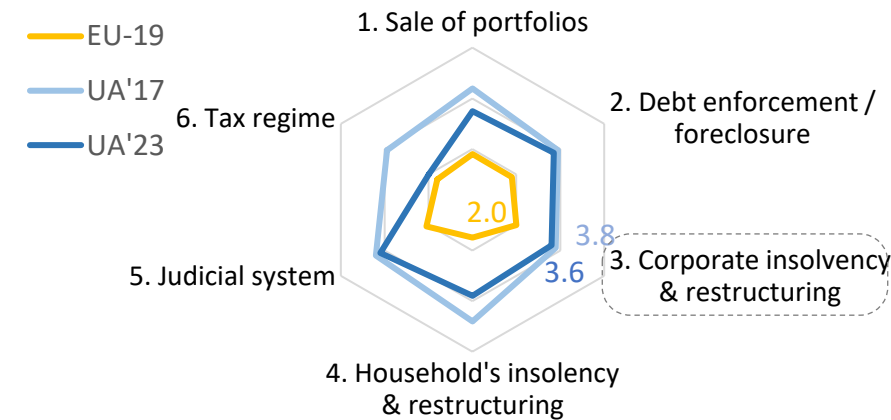
Progress since April 2017

- Overall, the implementation of private bailiffs has been successful and resilient to the changing circumstances following the invasion.
- The 2018 legislative change improved out-of-court enforcement for legal entities and individual entrepreneurs by preventing automatic full satisfaction of secured obligations through out-of-court mortgage enforcement, unless specified in the agreement. This allows creditors to pursue other debtor assets if the mortgaged asset's value is insufficient.
- State bailiffs' salary structure revised to increase transparency.
- Law 8064, aimed at streamlining the enforcement of court decisions and other bodies' rulings during wartime, has been adopted. To balance the rights of creditors during wartime, it encompasses the cancellation of the moratorium on enforcing notary writs, excluding non-notarized credit agreements.

EU best practices: Germany (L), Ireland (H), Spain (H)

- There are certain out-of-court contractual arrangements that enable fast foreclosures.
- Acceptable time limits for foreclosure procedures exist and are respected in practice. However, it's important to note that specific timeframes may vary between countries.
- Enhanced digitalization of enforcement processes, including electronic communication between courts, creditors, and debtors, streamlines procedures.

B.3 Corporate insolvency and restructuring



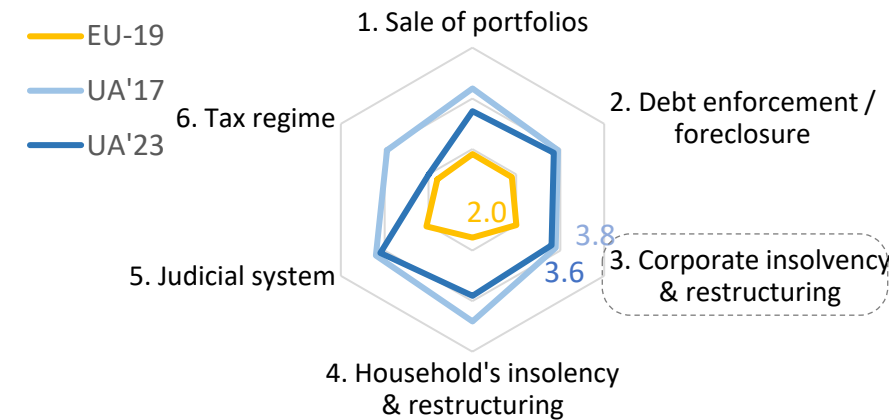
Assessment for Ukraine: 3.6 (April 2023)

- The 2019 Bankruptcy Code aimed to enhance creditors' positions in insolvency proceedings compared to the previous status, but poor implementation of the law causes an imbalance.
- Bankruptcy asset sales moved to the Prozorro.Sale platform for transparency and effectiveness, but unclear legislation causes guarantee payment issues in some auctions.
- Bankruptcy cases decreased due to the invasion, with remaining cases facing delays from administrative challenges, war impacts on hearings, and difficulties for companies with assets in occupied territories.
- Issues arise in the operation of insolvency administrators, linked to their violations of the process and lack of proper oversight, often due to inadequate supervision and distorted remuneration incentives.

Still gaps for improvement

- Enhance creditor influence in insolvency representative selection, remuneration, and supervision aligning with international best practices for effective insolvency proceeding participation.
- Align Ukrainian legislation with EU Directive 2019/1023, particularly by adding a pre-insolvency proceeding with cross-class cram-down and early warning tools.
- When modifying the Insolvency Code:
 - Restrict debtor's related parties' participation in insolvency proceedings beyond current plan voting restrictions.
 - Implement a streamlined bankruptcy and restructuring process for micro and small enterprises, enabling faster, efficient resolutions.
 - Automate termination of enforcement moratorium after 170 days, per Art 41.8 of the Bankruptcy Code, without needing a separate court decision.
 - Improve financial deterrents for bidders in bankruptcy auctions by revising guarantee payment provisions, focusing on the current 10% of starting price structure.
 - Revise Article 7 of the Bankruptcy Code to exclude debtor-as-plaintiff cases from commercial court jurisdiction, complying with *the vis attractiva concursus* principle.
 - Apply insolvency proceedings universally, including to state-owned enterprises.
- Bolster insolvency judges' capacity building for consistent Bankruptcy Code application in court rulings.
- Effectively implement a unified bankruptcy electronic system to improve efficiency and transparency in the bankruptcy process.

B.3 Corporate insolvency and restructuring



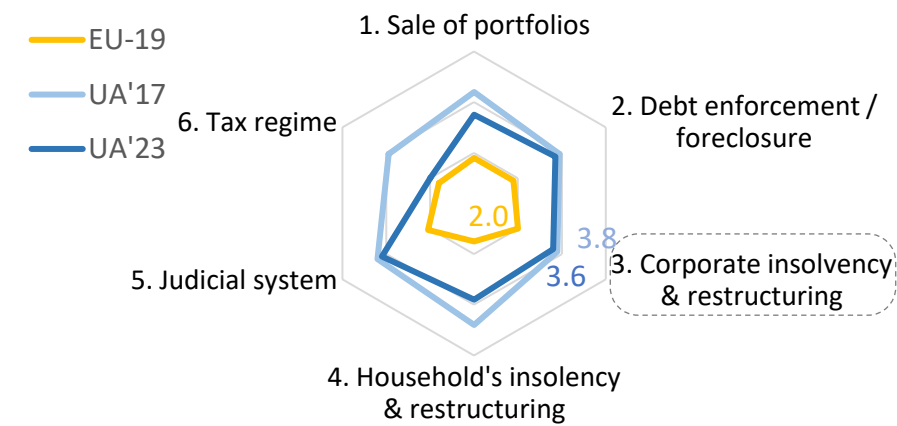
Progress since April 2017

- 2019 Bankruptcy Code improved transparency and expedited proceedings, positively impacting debt resolution.
- Prozorro.Sale platform introduced into the bankruptcy process to streamline asset sales in bankruptcy proceedings.
- Introduction of video conferences simplified participation in bankruptcy processes.
- Newly adopted Law 4409 harmonizes Code provisions, introduces the "Bankruptcy and Insolvency" automated system, and permits transitioning from liquidation to reorganization proceedings.
- Increased capacity building activities for judges handling insolvency cases.
- The Law on Financial Restructuring (Kyiv Approach), offering crucial tax incentives for successful restructurings, has been extended until 2028, supporting a long-term debt restructuring framework.
- Initiation of discussions on harmonizing Ukrainian legislation with EU Directive 2019/1023 on preventive restructuring frameworks, insolvency, and discharge of debt.

EU best practices: Portugal (H), Ireland (H), Germany (L)

- After many countries in Europe transposed the EU Directive for Restructuring (2019), some harmonization took place promoting pre-insolvency processes, and creating incentives to tackle insolvency cases on time. The Directive increases the chances of rescuing viable businesses, ensures a second chance for entrepreneurs, and requires EU member countries to provide fair treatment for creditors.
- Other reforms that continue aim to:
 - Set strict time limits, with default consequences in cases of non-compliance;
 - Strengthen creditor's roles;
 - Promote transparent auctions in liquidation procedures.
- Accelerated, less formal SME insolvency processes are being encouraged, in particular after the latest amendments in UNCITRAL Leg. Guide and the WB ICR Principles. Spain, Chile, Singapore, and the US enacted very recent reforms in this area.

B.3 Corporate insolvency and restructuring (cont.): *Financial Restructuring Law (Kyiv Approach)*



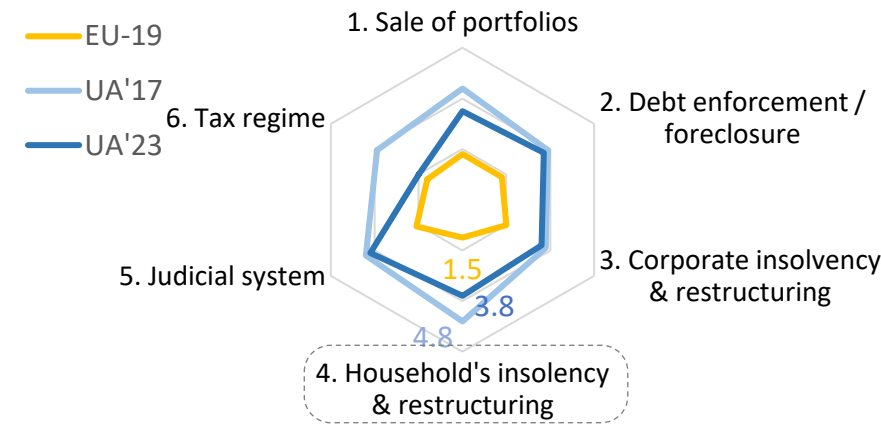
Assessment for Ukraine: 3.6 (April 2023)

- The Law on Financial Restructuring (*Law No. 1414-VIII*) provides a framework for long-term voluntary financial restructuring of debts, balancing the interests of creditors and borrowers.
- The Law, experiencing increased popularity in recent years, provides pivotal tax benefits that significantly contribute to successful restructurings and is currently slated to remain in effect until 2028.
- Most successful restructurings have occurred in the real estate sector, as banks can more easily take available real estate assets onto their balance sheets.
- Since its inception in 2017, 63 cases were registered under this Law. State banks are the primary users of this law, with 44 cases to their credit.
- The total amount of restructured debt is significant, around 80 billion UAH, but the number of cases remains relatively low.
- Commercial banks actively engage in debt forgiveness and are more willing to participate in multi-creditor restructuring processes.

Still gaps for improvement

- Financing for the Secretariat will stop in July 2023, posing questions regarding the future management of the system.
- As happens in many countries, State owned banks are hesitant to forgive debt due to potential legal consequences. They are reluctant to participate in multi-creditor restructuring processes and have become even more hesitant to engage in the restructuring process after the war.
- The full-scale invasion has significantly affected the financial sector's willingness to engage in restructuring processes. This is due to the unpredictable outcome of the ongoing war and the resulting uncertainty surrounding the future of debtor businesses.
- Since the start of the war, 10 cases have been received – 4 from state banks and 6 from financial companies and private entities.
- Additional efforts should be directed towards enhancing the Law's effectiveness and utility for conducting successful restructurings amidst the current challenging circumstances.
- As a conclusion: The Kyiv approach has not been as successful as initially expected to resolve NPLs. Consideration could be given to revamp it.

B.4 Household's insolvency and restructuring



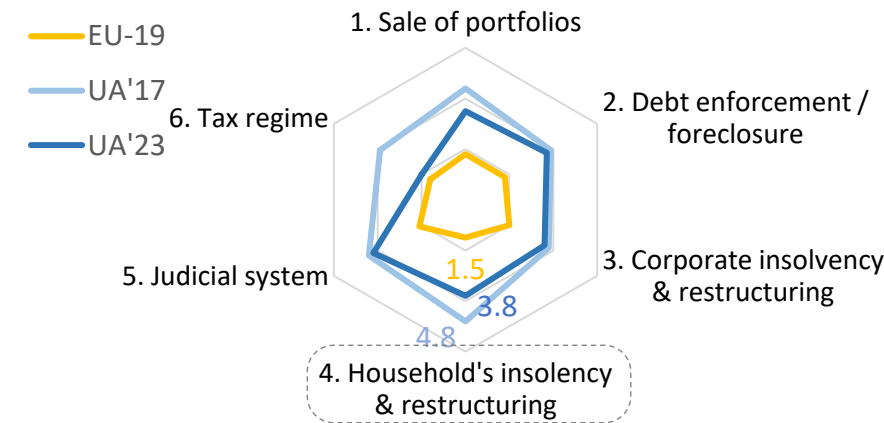
Assessment for Ukraine: 3.8 (April 2023)

- Since its 2019 adoption, the Bankruptcy Code's process for household insolvency lacks wide practical implementation and established guidelines. Ministry of Justice data shows only 416 bankruptcy cases of natural persons resolved from 2019 to 2023, highlighting a need for further guidance.
- Since the war began, there have been indications of an increase in personal insolvency cases. However, the procedure remains complicated for many individuals.
- Strategic defaults on loans are used to manipulate the bankruptcy process, and fraudulent activities involving debtors and administrators to exploit the bankruptcy process for physical persons. The lack of creditors' influence on the selection of administrators contributes to the abuse of the process.

Still gaps for improvement

- Strengthen debtor education and counseling programs to facilitate more informed financial decision-making, and establish comprehensive practice and guidelines for handling household insolvency cases to improve the overall process.
- Monitor and evaluate the effectiveness of enforcement moratoriums for physical persons, and review and update them as necessary to better address household insolvency and ensure a balanced approach for debtors and creditors.
- Explore alternative dispute resolution methods, such as mediation, to expedite household insolvency resolution.
- Introduce mechanisms allowing creditors to have a say in the selection of administrators, ensuring a fair process.
- Strengthen enforcement against strategic defaulters and enhance fraud detection and prevention mechanisms in household bankruptcy proceedings to ensure fairness and integrity in the process.

B.4 Household's insolvency and restructuring



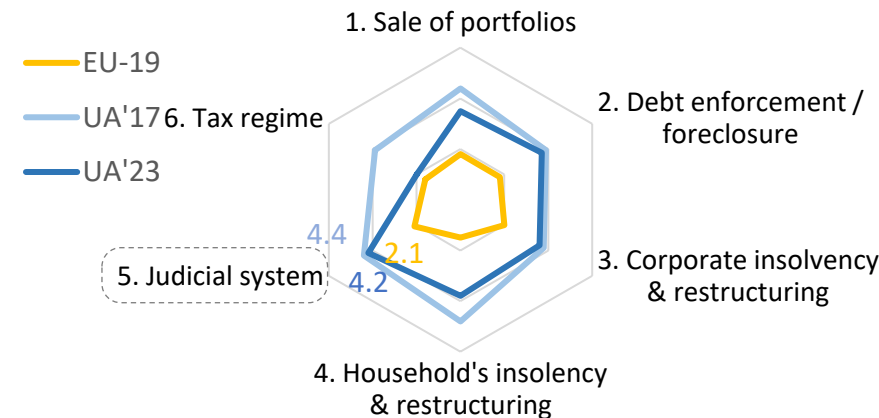
Progress since April 2017

- Bankruptcy Code introduced a new process for household insolvency, aiming to streamline the bankruptcy process for individuals.
- 2019 Bankruptcy Code expanded property realization to include both legal entities and natural persons, leveraging the Prozorro.Sale platform.
- Initiated discussions on establishing debt advisory centers for individuals to provide guidance and support throughout the insolvency process.

EU best practices: Portugal (H), Spain (H)

- There are no international standards on best practices in household's insolvency and restructuring.
- As per multiple studies, it is strongly advised to have a personal insolvency system that, at least, contemplates:
 - A discharge period (immediate or up to 3 years) that allows the person to “clean” the past debts and facilitating a “fresh start” once certain conditions are met – this encourages the person to return to an economically productive activity
 - A general regime for out-of-court settlements and to expedite procedures compared to corporate insolvency
 - Provision of debt counselling to individuals
- Personal insolvency regime covers all debts assumed by households and consumers. Some regimes include individual entrepreneurs (which are currently contemplated in the existing corporate insolvency law).

B.5 Judicial system



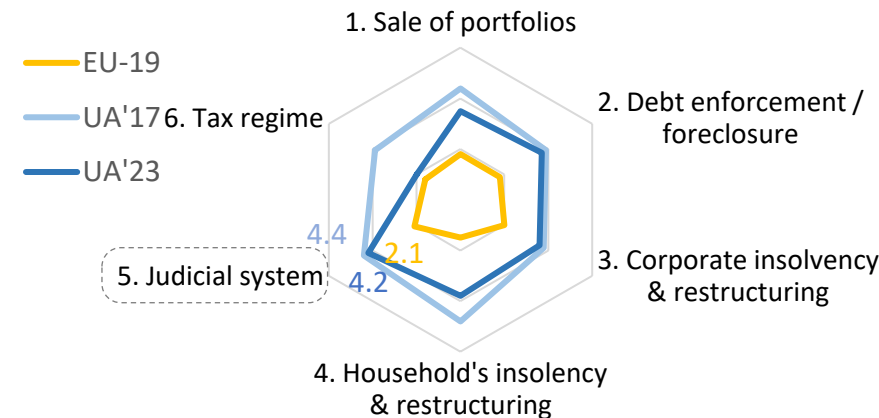
Assessment for Ukraine: 4.2 (April 2023)

- War-related disruptions have worsened NPL conditions and impaired access to justice, affecting bankruptcy and restructuring processes.
- Long court processes and frequent delays in proceedings undermine effective enforcement and insolvency resolution.
- Judges' inconsistent application of legislative amendments and good practices further complicate matters.
- Insufficient cooperation between courts and private bailiffs limits enforcement effectiveness.
- Concerns regarding the disciplinary committee overseeing procedural actions of private bailiffs.
- Many judges lack training in economic issues, which hampers the proper handling of bankruptcy processes.
- Lack of centralized and comprehensive data on judicial enforcement processes.

Still gaps for improvement

- Conduct comprehensive judiciary reform to address long court processes, delays, and inconsistent application of legislation.
- Improve cooperation between courts and private bailiffs for more efficient enforcement processes, including through the implementation of digital solutions such as expediting the submission of enforcement documents from courts to bailiffs via digital means.
- Enhance judicial capacity through education and specialized training programs to improve understanding and application of legislative amendments and good practices, specifically focusing on complex issues such as bankruptcy legislation.
- Review the oversight of private bailiffs' actions to ensure fairness, effectiveness, and avoidance of conflict of interest issues.
- Implement a unified electronic bankruptcy system to streamline and increase transparency in judicial processes, while continuing to develop and enhance digital solutions for other aspects of the legal system.
- Enhance transparency and accessibility by improving the centralized judicial data system, making it easier for stakeholders to access relevant information and gain insights into the judicial process.

B.5 Judicial system



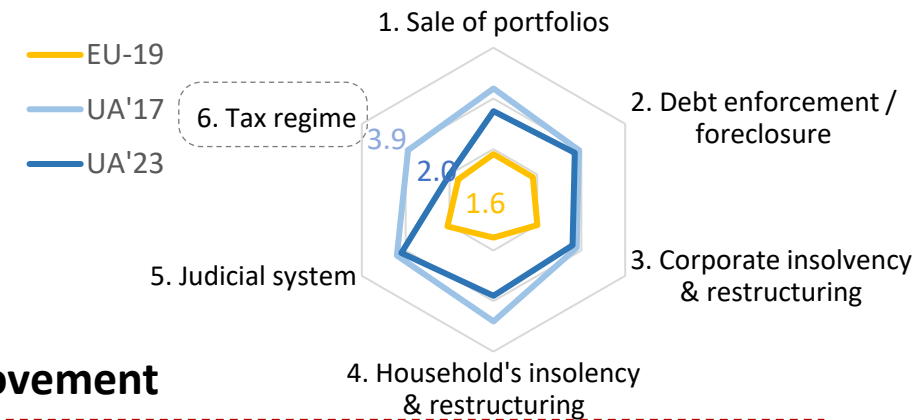
Progress since April 2017

- Judiciary capacity building activities took place to improve overall efficiency and effectiveness of the judicial system.
- Improvements in the auction platforms in the enforcement system and the bankruptcy process have positively impacted the perception of the overall judicial process, increasing confidence and transparency for users involved in legal proceedings, compared to a baseline where the perception of auctions' transparency and efficiency was very negative (2017).
- Collaboration with international institutions to help develop appropriate strategies and actions.
- Introduction of electronic court system in the judiciary.

EU best practices: Germany (L), Spain (H)

- There are specialized courts dealing with commercial matters, and sometimes further specialization of either judges or courts (such as specialized judges for insolvency or for small claims, etc.).
- Also, in civil procedure laws, there are legal provisions that stipulate certain protection to individual borrowers, e.g. an amount exempt from execution in order to secure minimum living wage for the debtor or certain “exemptions” of property that cannot be seized by creditors.
- The court process has certain time limits and they are complied with by the parties and the court.

B.6 Tax regime



Assessment for Ukraine: 2.0 (April 2023)

- There are some areas for improvement in the tax treatment of NPL resolution.
- Out-of-court restructuring (Kyiv approach) has attractive tax benefits: (1) collateral exchange for debt reduction are VAT exempt for debtors and for creditors, (2) no corporate income tax on debt reduction (forgiveness), (3) tax authorities may be forced into debt reduction if other creditors decide on reduction.
- There may be personal income tax (PIT) charges in case of debt forgiveness to households:
 - Banks are obliged to report the forgiven amount of loan principal to tax authorities, then the amount is recognized as income and charged with PIT,
 - Forgiveness proportionate for FX loans appreciation is exempt from PIT charges,
 - Debt forgiveness during a court insolvency procedure is also exempt from PIT charges. However, the court procedure is not easily accessible and very costly (court fees, insolvency manager remuneration).

Still gaps for improvement

- Out-of-court household loan principal forgiveness still remains an open issue:
 - PIT charges are a burden for financially distressed debtors
 - Tax consequences may divert banks from optimal debt resolutions, e.g.
 - Make sale of loans to debtors preferred over restructuring with concessions
 - Make court insolvency preferred due to tax exemptions and overload the court system.
 - There is no a financial ombudsman in Ukraine to safeguard balance of interests and provide out-of-court resolution mechanism for households with tax exemptions.
- Possibly, tax criteria for write-offs may be revised to make possible quick write-offs of the new NPLs that result from damages of the war.
- Tax interpretation for loan sales/assignments to non-financial company counterparties is still necessary.

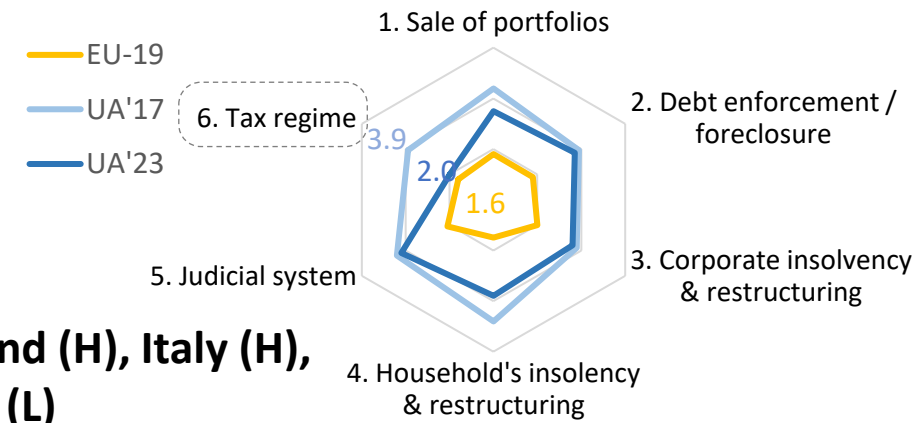
B.6 Tax regime

Progress since April 2017

- Progress achieved in improving the legislative tax framework that eliminated tax impediments to NPL resolution:
 - Clarified write-off tax criteria (360 days+)
 - Eliminated the limit (25%) on provisions tax deductibility
 - Clarified legal provisions for debt forgiveness and write-off
 - Introduced transitional clauses to assure full tax deductibility for provisions increase due to IFRS 9 implementation.
- The MOF established a new practice on tax interpretations:
 - The expert council of public and private sector practitioners was created
 - The first tax interpretations were issued on NPL related issues: about provisions for tax-deductibility, defining write-off /debt forgiveness and application of tax criteria for write-off (overdue 360+)
 - Council work on tax interpretations has become regular and positive practice.

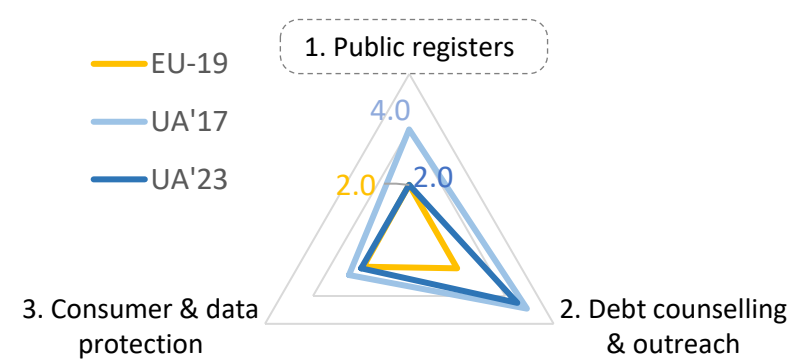
EU best practices: Ireland (H), Italy (H), Germany (L), Lithuania (L)

- Tax regime in general is not an obstacle to private debt resolution:
 - There are no limits or very soft limits on tax-deductibility for provisioning expenses
 - Tax-loss carrying forward mechanism is provided (deferred tax assets)
 - Tax-deductibility is granted for loan full or partial write-offs, with very few exceptions in some counties for secured loans for real estate projects, land developers
 - Only financial result from loan sales is taxable.



Progress and WB recommendations under Pillar (C)
Registers & Information Framework

C.1 Public registers (central credit registers, asset register, cadastre)



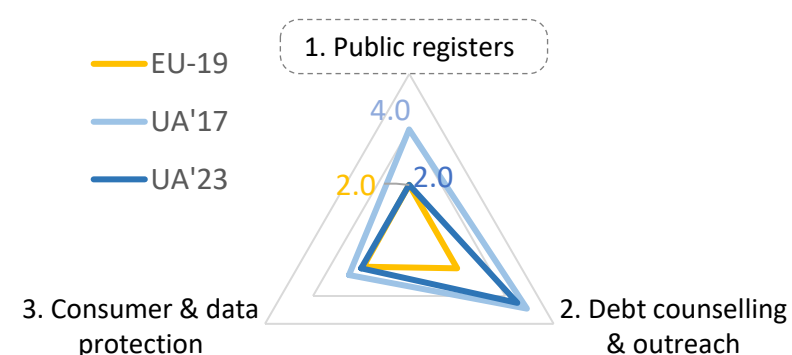
Assessment for Ukraine: 2.0 (April 2023)

- The NBU established the **central credit registry** in 2018 (Law of Ukraine #2277-viii, NBU Regulation #50) with a restriction to accumulate data for exposures above a threshold (>100 min monthly wages).
 - Banks are required to upload datasets on monthly basis.
- Banks are granted access to the registry to verify status of prospective borrowers and monitor existing borrowers.
- There is no functional and transparent registry of bankruptcies.
- There are well functioning **public central electronic registries** for pledged movable assets:
 - Ownership, pledge, leasing, and other rights on immovable assets,
 - Cadastral registry.
- There are **4 major private credit bureaus**:
 - The Law on Consumer Lending requires mandatory reporting at least to one bureau within 2 days after issuance, repayment
 - Access to credit history is fee based and the rates differentiate depending on size and terms of cooperation.

Still gaps for improvement

- **Threshold for reporting to the CCR** may be decreased from current UAH 670,000 (USD 18,300) to a reasonable low level in line with good practice.
 - Respective legislative changes are in progress
 - The NBU is currently defining a new threshold level, software and hardware requirements for the CCR to fit the increased volumes of datasets
 - Lower thresholds will increase relevance and enable wider use of the datasets for macroprudential analysis.
- **CCR needs more information on IFRS credit quality assessment** (stages, LGD, forbore loans, credit modifications).
- There is only one credit bureau (UBKI) that works in **real time regime**.
- NBU plans to improve supervision for credit bureau conduct as for personal data protection and accuracy of information in credit histories.

C.1 Public registers (central credit registers, asset register, cadastre)



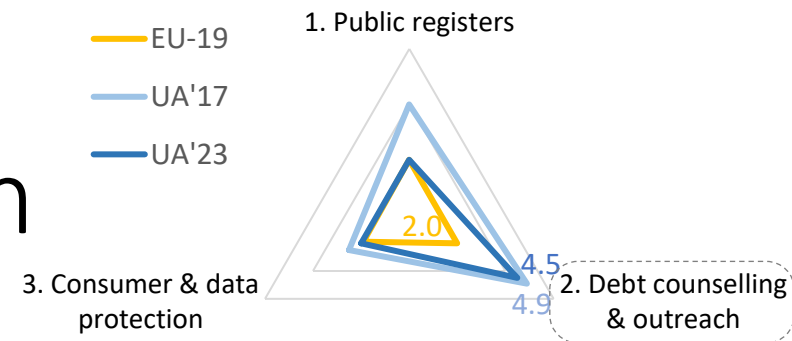
Progress since April 2017

- The Law of Ukraine on Central Credit Registry (CCR) was adopted on November 9, 2017 (#7114) and it was launched in 2018
- Reporting to the CCR became mandatory from January 1, 2019.
- Prudential requirement for credit ranking alignment with the CCR started in 2019 (e.g. cross default recognition).
- Amendments to the law on consumer loans in 2020 imposed mandatory reporting to credit bureau within 2 days.
- In addition to micro prudential impact (cross defaults and credit discipline), the CCR may become a good source of data for macro level credit risk assessment, producing estimates that can significantly enhance early macroprudential risk identification and measurement.

EU best practices: Spain (H), Germany (L), Italy (H), Cyprus (H)

- Public registries are not viewed as causing any impediments to NPL resolution:
 - CCR is a public service provided by the regulator and aligned with supervisory requirements
 - ~100% loan market coverage by CCR
 - NPL and forborne status are reported.
 - Cadastral (land) registry, immovable and movable property registry are accessible online, provide sufficient transparency and functionality
 - Commercial and residential real estate transactions are reported in fairly comprehensive way, general public can search on transaction
 - The registries are updated continuously.
- Recent developments: launched in 2018 AnaCredit (“Analytical credit datasets”) is a collection of granular credit and credit risk data harmonized across all EU Member States (Regulation (EU) 2016/867, ECB/2017/38).

C.2 Debt counselling and outreach



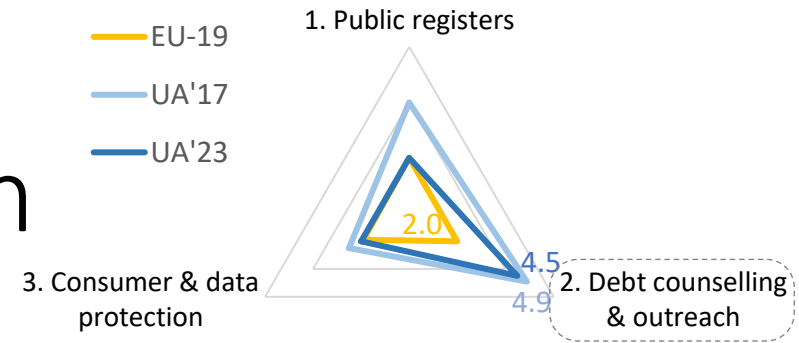
Assessment for Ukraine: 4.5 (April 2023)

- There is no debt counselling for indebted households.
- There were at least two initiatives for debt counselling, however, they have not grown into a nation-wide counselling service with easy and indiscriminate access for citizens:
 - Through the network of free legal aid, but it is restricted only to householdings of socially vulnerable citizens.
 - Through legal clinics: there are 5 legal aid centers in largest cities.
- There is debt counselling for SMEs within the government program to support SME business development with sponsored loans, advisory, and other support.

Still gaps for improvement

- There is **little awareness of the debt resolution options** available to households, e.g. about:
 - Court insolvency procedure, which is expensive for households in financial distress
 - Out-of-court voluntary restructuring with creditor and with disadvantageous tax treatment for principal forgiveness (if any)
 - There is no any other alternative option with favorable tax treatment.
- Only a **few banks declared voluntary adherence to responsible lending**, including the provisions on fair dealing with households in distress.
- **Financial Ombudsman** (or alternative solutions) may improve the situation with debt counselling and outreach.

C.2 Debt counselling and outreach



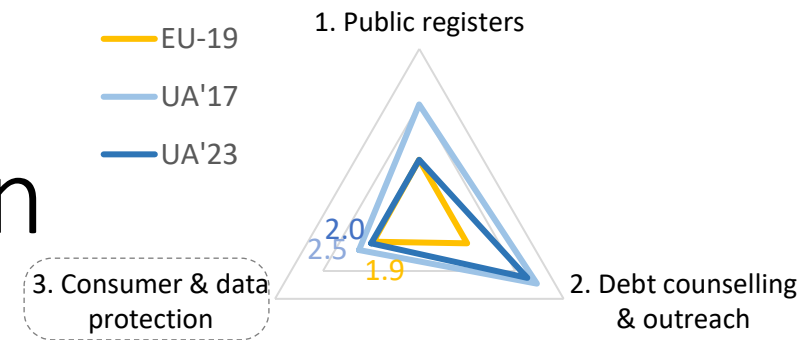
Progress since April 2017

- In 2019 a court insolvency procedure was introduced for households (see B4).
- The NBU is developing a strategy for financial literacy and inclusion, however, there is no evidence for expected changes for debt counselling and outreach.
- The network of free legal aid may provide debt counselling but only to a narrow group of socially vulnerable citizens.
- There is no other government or NGO activities on debt counselling for individuals in financial distress.
- The Government took a leading role in promoting development for SME business through Entrepreneur Development Fund and subsidized lending program 5/7/9%.

EU best practices: Portugal (H), Austria (L), Belgium (L)

- Positive general perception of the established debt counselling and outreach that are executed via government agency or special NGOs:
 - Provide free of charge information, advice, and assistance to households that face payment difficulties
 - Evaluation of indebtedness and over-indebtedness
 - Financial education activities.
- There is a similar activity for SMEs:
 - Provide training and advice, including credit management.
- Financial Ombudsman is an effective out-of-court resolution mechanism for financial consumers and in some cases for SMEs.

C.3 Consumer and data protection



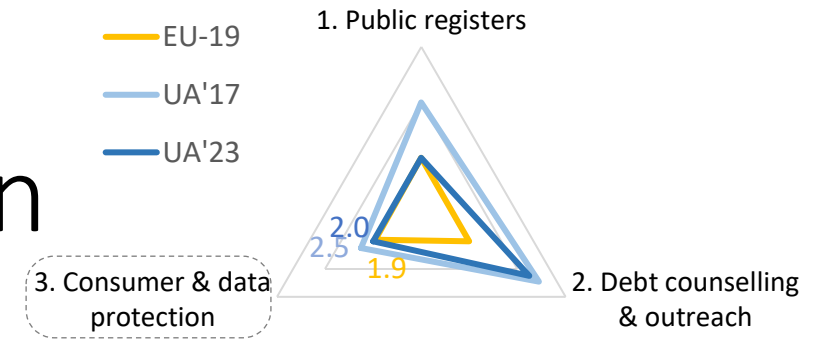
Assessment for Ukraine: 2.0 (April 2023)

- There are appropriate legislative requirements for consumer and data protection.
- Mandatory borrower notification is required.
- Banks consider consumer data protection as appropriate and proportional, and it does not create impediments to NPL sales or other resolution strategies.

Still gaps for improvement

- There are no legislative provisions and no protection for excessive debt burden caused by irresponsible credit decisions.
- The **framework of responsible lending** is only partly in place:
 - It is mostly present for information disclosure
 - There are no provisions for loan affordability and suitability requirements imposed on loan origination process.
- GDPR implementation would be highly beneficial, it is expected in 2024.

C.3 Consumer and data protection



Progress since April 2017

- The NBU established a Financial Consumer Protection (FCP) office in 2019.
- FCP has been focused on supervision of financial intermediaries conduct as for:
 - Information disclosure
 - Compliance with the legislation on financial consumer protection
 - Consumer complaints consideration and actions.
- Personal data protection within financial institutions is supervised by the NBU, while the ombudsman for human rights is responsible for overall data protection issues in Ukraine.

EU best practices: Ireland (H), Italy (H), Portugal (H)

- There are restrictions on recording and sharing personal information established in data protection legislation.
- But the restrictions are proportional and do not pose obstacle to private debt resolution.
- Data protection restrictions do not apply for central credit registry and prudential reporting.

Thank you!