

National Bank of Ukraine Board

RESOLUTION 461

of 6 August 2009

On Debt Restructuring Measures

In accordance with articles 7, 15 of the National Bank of Ukraine law (679-14) and articles 49, 55, 60 - 62, and of the Banks and Banking Activities law of Ukraine (2121-14), and pursuant to minimizing banks' risk exposure (credit, liquidity, legal, and reputation risks) and preventing loss of trust in the banking system, particularly through banks offering acceptable terms for retail borrowers to be able to pay back loans, the Board of the National Bank of Ukraine hereby

R E S O L V E S:

1. Approve:

1.1. the Guidelines on the banks' work with retail borrowers who had taken out consumer loans and got into a difficult financial situation (find attached hereto).

1.2. the Note to a Borrower having unpaid debts to banks for a consumer loan (hereinafter referred to as the Note), who got into a difficult financial situation (see attached hereto).

2. Bank management shall:

2.1. ensure putting up the Note (printed in at least size 14 font) in all bank offices dealing with consumer lending, so that borrowers could see and read it.

2.2. hold management of bank offices dealing with consumer lending personally responsible for failure to comply properly with the requirements of sub-clause 2.1 herein.

3. NBU regional offices shall publish the Note press release in the most popular Oblast printed organ at the cost of funds of article 5.7 "Other operational expense" of the budget for current income and expense of the relevant center of budget responsibility.

4. NBU foreign relations department (S. Kruhlyk) shall publish the Note in the most popular printed media of Kyiv and of Kyiv Oblast.

5. NBU statistics and reporting department (V. Gahl) shall post the Note and the press release about the Note on the official Internet page of the National Bank of Ukraine.

6. NBU financial department (O. Kandybka) shall make sure that the NBU revenues and expense budget includes, under an established procedure, the funds need to publish the press-release about the Note.

7. The department for bank regulation and oversight methodological support (Natalia Ivanenko) shall ensure communication of this Resolution to the central divisions of NBU HQ, NBU regional offices, and banks for compliance.

8. Control over compliance with this Resolution shall be vested with Executive Director-Bank Regulation and Supervision Director Vasyl Pasichnyk, NBU Off-site Bank Supervision Department (K. Rozhkova), Banks Inspections department (S. Faber), Crisis Management Administration (Yu. Petrov), and heads of NBU regional offices.

9. This Resolution shall take effect from the date of execution.

Acting NBU Governor

A.V.Shapovalov

GUIDELINES
on the banks' work with retail borrowers who had taken out consumer loans
and got into a difficult financial situation

1. General Provisions

1.1. The Guidelines on the banks' work with retail borrowers who had taken out consumer loans and got into a difficult financial situation (Guidelines) developed on the basis of articles 7, 15 of the National Bank of Ukraine law (679-14) and articles 49, 55, 60-62, and of the Banks and Banking Activities law of Ukraine (2121-14), taking into account the relevant practices of EU bank supervisors.

Compliance by banks with the Guidelines will facilitate minimizing banks' risk exposure (specifically, credit, liquidity, legal, and reputation risk), improving loan repayment, and bank's capacity to perform obligations to depositors and creditors, and recovering bank's credibility by way of creating an acceptable environment for retail borrowers to repay their consumer loan obligations (like loans for immediate needs and mortgage loans).

1.2. The National Bank of Ukraine (NBU) recommends that banks make use of these Guidelines when working with retail borrowers who had taken out consumer loans and got into a difficult financial situation due to unforeseen circumstances that caused an adverse effect on their ability to pay on time and in full for their consumer loans (referred to hereinafter as 'borrowers in a difficult financial situation').

The unforeseen circumstances that caused an adverse effect on the borrowers' ability to pay in time and in full for their consumer loans, may be: cutting down of salary and/or of other revenues; loss of benefits, loss of a job; serious health condition and/or inability to work due to poor health; divorce; death of family members or other events, if such circumstances have caused loss of income or a decrease in income down to a level where aggregate monthly loan payments exceed 30% of the borrower's monthly income.

1.3. It is recommended that banks treat the borrower as being in financial distress in the presence of the relevant reliable documents (a statement of employment, information from the State authority for unemployment etc.) including objective and irrefutable proof that the borrower is unable to make payments on the loan on time and in full due to unforeseen circumstances, as specified in clause 1.2 of the Guidelines.

2. Organization of work with borrowers in financial distress

2.1. Being guided by the Guidelines, banks apply the provisions thereof to the internal policies describing the procedures of work with financially distressed borrowers to be complied with continually.

2.2. Pursuant to the organization of work with financially distressed borrowers, it is recommended that banks assign authorized officers or set up special structural units for that purpose, taking into consideration the organizational chart of the bank, the areas and volume of operations etc. in all branches and offices of the bank performing lending operations, and ensure their supervision by the central office of the bank.

2.3. Pursuant to ensuring unbiased treatment of financially distressed borrowers, it is not recommended that the officer (or unit) responsible for work with financially distressed borrowers report to those bank units that collect debts from such borrowers.

3. Conducting work with borrowers in financial distress

3.1. In order to avoid further social tension among the general population, it is recommended that banks treat with respect and understanding such financially distressed borrowers, and, at the same time, determine the ways of debt restructuring, taking into account, among other things, the status of the borrower's making payments on the consumer loan (referred hereinafter as 'debt') prior to the events that caused financial distress of the borrower, the causes thereof, the current financial situation of the borrower, and prospects of solvency recovery etc.

3.2. Working with a financially distressed borrower, it is recommended that banks resort to measures aimed at creating acceptable environment for the borrower to continue payments for his/her consumer loan, specifically:

contact the borrower at the time and by method of the borrower's convenience (like meetings, communication by mail, telephone, fax etc.);

give access to the borrower complete and easy-to-read information on the sum total of his/her debt, including all payments as envisioned by the loan agreement terms and inform the borrower about the measures that may be imposed by the bank in case of delinquency, telling the borrower in particular that failure to comply with the loan terms may have an adverse effect on the credit history of the borrower and result in a worse access to credit going forward;

discuss with the borrower all circumstances of his/her financial distress and provide free advice on possible ways of paying the debt;

explain to the borrower the position of the bank on his/her financial distress situation, particularly that the bank will treat the borrower with due understanding, seeking to find, through a joint effort, a solution acceptable for both parties so as the borrower could repay his/her debt;

in the event of the bank and the borrower agreeing on debt restructuring / currency change, develop together with the borrower a program of debt restructuring that would be acceptable for both the borrower and the bank.

3.3. In the course of discussing with the borrower in distress all the ways of his/her debt restructuring, it is recommended that the bank provides the borrower with complete and easy-to-understand information on each of the possible methods of solution so that the borrower understands the mechanism of the action and all consequences of each:

- perform debt restructuring / currency change on the terms acceptable to both parties in conformity with the principles recommended by the National Bank of Ukraine (see NBU resolution 328 of 6/3/2009 (v0328500-09) "On Debt Restructuring Measures ");

- sell the borrower's debt;

- re-assign the right of claim under the borrower's loan agreement;

- resort to services provided by third parties to have the borrower pay the debt; and

- foreclosure.

3.4. Once the debt restructuring / currency change has been approved, the borrower shall be provided with a detailed disclosure of the total cost of loan, taking into account the interest rate for the loan, the cost of all accompanying services and of other liabilities of the borrower, in conformity with the Rule of Ukrainian banks disclosure to clients on lending terms and the total cost of the loan, as approved by NBU Resolution 168 of 5/10/2007 (z0541-07) and registered with the Justice Ministry of Ukraine on 5/25/2007 (#541/13808).

3.5. Should it prove impossible to agree on debt restructuring / currency change with the borrower in financial distress, banks are recommended to furnish the relevant information to the credit history bureau, provided the bank has a written permission of the borrower to collect, use, and disclose via a credit bureau the information about the borrower.

4. Reporting on financially distressed borrowers

4.1. Pursuant to borrowers paying their debts on loans, banks may ask third persons-business entities for assistance and enter into relevant agreements with such entities. An important factor in such arrangements may be unblemished business reputation of such business entities and of their management, which makes it possible for the bank to make a conclusion about their professional and managerial capabilities, integrity and compatibility of their operations with legal requirements, as well as about application in their work of such principles of interaction with borrowers that would preclude any acts of disrespect or dishonor to borrowers.

The criteria of unblemished business reputation of such business subjects and of their management shall be specified in the bank's policies on interaction with borrowers in financial distress.

4.2. Banks shall be entitled to provide information containing bank secrets to their parties with whom they have entered into service agreements to collect borrowers' debts, and who have developed and approved the operating rules that ensure non-disclosure of information constituting bank secrets, unless the bank has a written permission from the borrowers in conformity with the Rules of keeping, protecting, using, and disclosing bank secrets, as approved by NBU Resolution 267 of 7/14/2006 (z0935-06) and registered with the Justice Ministry of Ukraine on 03.08.2006 за N 935/12809.

Natalia Ivanenko

Director

Bank Regulation and Oversight

Methodology Department

APPROVED
by NBU Board Resolution 461
on 8/6/2009

NATIONAL BANK OF UKRAINE

NOTE

**to a Borrower having unpaid bank debts for a consumer loan,
who got into a difficult financial situation**

Is it worth ignoring the loan agreement terms?

Having taken out a loan and being the bank's borrower, you are obligated pay back the principal and interest in the amount and in accordance with the timeline as specified in the loan agreement.

Besides, the terms of the loan agreement often envisage other payments related to taking out, servicing and repaying the loan, both in favor of the bank (fees for opening the current/card account, cash settlement services, debt servicing, which is related, for instance, to the borrower's wish to get his credit/card account balance extracts, exchange transactions, consultations, including legal advice etc.), and in favor of third parties (insurance payments, payments for notary services and services of other parties, stock exchange charges etc.).

The National Bank of Ukraine (NBU), pursuant to protecting the rights of borrowers, has introduced the Rules under which borrowers are to be informed of lending terms and the aggregate cost of the loan, as approved by NBU Resolution 168 of 5/10/2007 (z0541-07) and registered with the Justice Ministry of Ukraine on 5/25/2007 (#541/13808 (hereinafter referred to as Regulation 168), and has prepared detailed information for individuals who want to take out a bank loan, as described in the Consumer Loan Note posted on the NBU web page, in the sub-section entitled "Borrower's information support", section "Information materials" on www.bank.gov.ua/Inf_mat.

In the event of failure to perform or failure to perform properly the obligations under the loan agreement as regards the loan repayment, as well as in the event of loss or material deterioration of quality of the pledged assets at your disposal, the bank is entitled to demand early repayment of the principal and of the actually accrued interest. This right of the bank, as a rule, is specified in the loan agreement.

Besides, banks collect and accumulate information on the status of the borrower's servicing the loan, which information forms the basis of the borrower's credit history. All your actions or lack thereof resulting in delinquency may impact your credit history. Deciding whether or not lend money to an applicant, banks typically check out the borrower's credit history. A negative credit history may result in banks offering a higher interest rate or refusing to lend.

ATTENTION! For failure to comply with the loan agreement terms, banks impose penalties (charges). As a result, the amount of debt, including penalties, may be so significant that it cannot be repaid even through a sale of the pledged assets. The proceeds then pay only for part of the debt, and the borrower, under a court's ruling, continues payments to the bank at the expense of other assets (from salary, other property etc).

Borrowers should also refrain from making rash decisions on taking out a loan, particularly in difficult times for the borrower. For example, a borrower cannot leave a motor car that was used as pledge under a loan, in front of the bank thinking that this completes the relations with the creditor bank. This is merely a personal opinion of the borrower. Under article 1 of the law of Ukraine "On Pledges" (2654-12), a bank has legal grounds to think otherwise. Taking into account constant changes in real estate and vehicles prices, depreciation, and other circumstances, the bank sell the pledged assets at market prices. A situation may arise in this case, too, when proceeds would cover just a part of the borrower's debt.

Accordingly, it is extremely important for the borrower to control the distressed situation in which he/she turned out to be for whatever reason, and try and find, jointly with the bank, a way to resolve the situation to both parties' satisfaction.

Can the bank help you?

Banks treat with understanding the cases when you happen to be in a force majeure situation that causes your financial distress, making you unable to repay the debt on time and in full.

Unforeseen circumstances of this kind may include, for example: a cut in salary and/or a reduction in other revenues; loss of benefits or loss of job; serious sickness or invalidity; divorce; death of family members etc., if such event led to a loss or reduction of income, causing the monthly loan payments to exceed 30% of your monthly income.

In the presence of the relevant reliable documents (a statement of employment, information from the State authority for unemployment etc.) including objective and irrefutable proof of your being unable to pay your debt on time and in full due to unforeseen circumstances, as well as for other reasons (e.g., your servicing the debt prior to event that cause your financial distress, reasons of such events arising, the current financial situation, the prospects of recovery etc), the bank may agree to let you pay for the debt on other terms, acceptable to both you and the bank.

What can you do finding yourself in financial distress?

To start with, stop ignoring letters and calls from your creditors. Your debt will not dissipate on its own, so you need to meet with the bank representatives for constructive solution of the debt problems. And the sooner you meet them, the less penalties and the better terms of debt restructuring.

At same time, never rely solely on the bank. You need to evaluate the situation on your own in a reasonable way. You should realize that borrowed money is to be paid back. The bank, in essence, acts as a financial intermediary, because to lend, it accepts deposits, and these are to be returned on time, as specified by the deposit contracts, with interest. Which means that the borrower's payments on his/her loan are actually a source fro the bank to pay back the customers' deposits. For the purpose of

sustainable operations, the bank matches the schedule of deposit return against the revenues from debt payments. As such, you are supposed to take every effort to repay the loan taken out.

How should the bank treat the borrower in financial distress?

If you end up in financial distress, both you and the bank are interested in seeking and finding a viable solution. Sale of pledged property is an act of necessity for the bank, once it decides that the loan cannot be repaid through the borrower's financial situation recovery.

By its Board Resolution 461 dated 8/6/2009, NBU has approved the Guidelines on the interaction of banks with individual debtors and borrowers in financial distress (referred hereinafter as Guidelines 461).

In accordance with said Guidelines, banks should:

- contact the borrower at the time and by method of the borrower's convenience (like meetings, communication by mail, telephone, fax etc.);
- give access to the borrower complete and easy-to-read information on the sum total of his/her debt, including all payments as envisioned by the loan agreement terms and inform the borrower about the measures that may be imposed by the bank in case of delinquency, telling the borrower in particular that failure to comply with the loan terms may have an adverse effect on the credit history of the borrower and result in a worse access to credit going forward;
- discuss with the borrower all circumstances of his/her financial distress and provide free advice on possible ways of paying the debt;
- jointly with the borrower, work out a program of debt repayment that is acceptable to both the borrower and the bank, such as, in particular, debt restructuring / currency change etc.

What are the main ways of ensuring that a loan is paid back?

The Bank may:	<ul style="list-style-type: none">- do debt restructuring;- change the loan currency;- sell debt to another bank;- reassign the right of debt claim;- involve third parties providing debt collection services;- perform foreclosure.
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Debt restructuring means amending the previous loan agreement by way of entering into an additional agreement extending the debt repayment schedule, change the interest rate etc. Debt restructuring will help you repay your debt on other terms. Debt restructuring terms are determined by the bank for each individual borrower separately on the basis of objective and irrefutable proof that the borrower is unable to make payments on the previous terms of the loan agreement, in the presence of reliable supporting documents.

When entering into a bank agreement, including an additional loan agreement, make sure you understand all the terms thereof, that you have been provided with complete information on the aggregate cost of the bank services in conformity with Regulation 168, and that you understand fully all the consequences of executing the agreement.

Having entered into an agreement with the bank, comply with all its terms.

If you fail to pay on your loan, ignore calls, fail to respond to the bank's letters, and if you have not agreed on debt restructuring, the bank may go to court or involve third parties-business subjects collecting debts or turn to another bank to sell your debt or reassign the right of claim on your loan agreement.

Natalia Ivanenko
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Bank Regulation and Oversight
Methodology Department