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Romania Debt Market Assessment

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ROMANIA: EXPEDITED BOND MARKET ASSESSMENT

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A EXISTING ISSUERS AND INVESTORS

Description of Issuers

The current economic situation in Romania is improving, inflation has declined sharply, and interest rates have been falling steadily. Romanian issuers are taking advantage of lower worldwide interest rates and issuing international bonds at a record pace.[1] The increased issuance of international bonds has not been directly translated into new domestic issuance of corporate bonds, but the issuance of international bonds brings confidence to local companies to issue securities in Romania.

Domestic Issues: The total issuance of corporate bonds through public offerings in Romania consists of three fixed rate issues that total less than $1.5 million in value. International Leasing is the second company to issue corporate bonds in Romania through a public offering.[2] Several other companies have issued corporate bonds through private placements.

The first International Leasing issue was done in 2000 with 1.5 years maturity and a size of approximately $100,000 (2.2 billion ROL). This bond has matured and was fully paid. The second issue was completed in 2002 with a 2-year maturity and an issue amount of approximately $460,000.

Currently there is a planned Floating Rate Note (FRN) issue for Impact SA for $1,500,000. This issue has a very high probability of coming to the market in early 2003. If successful, the Impact issue will be the benchmark for all further issuance in the corporate debt markets in Romania. This will be the first public issue over $1,000,000. Alpha Finance, the issuing agent for Impact said they have two additional issues in the pipeline, valued in the $5-$6 million range. One additional small convertible bond issue has occurred through a public offering done in Cluj (a city located in Transylvania) for Sticla Luxil SA.

ISSUES IN THE ROMANIAN MARKET								
ISSUE	ROL VALUE	$ VALUE	UNITS	COUPON	MATURITY	TYPE	GUARANTEE	BROKER
International Leasing SA	2,200,000,000	$101,4153	88,000	60% Quarterly	1.5 Years	Convertible	Insurance policy- Grup AS	InterCapital Invest
International Leasing SA	15,000,000,000	$460,000	600,000	42% Quarterly	2 years	Non-convertible	Insurance policy – BCR Asigurari	InterCapital Invest and BCR Securities SA
Sticla Luxil SA	2,167,260,000	$65,000	72,242	5%	1 Year	Convertible	Unsecured	InterDealer Capital Invest SA

[1] SNP Petrom (2001), Termoelectrica and CFR Marfa have recently issued Eurobonds, and three other issues are planned for year 2003.

[2] The first was Siderca Calarasi, a state-owned company that completed a 6.3 billion ROL bond issue in 1997; the 3-year bond issue matured in 2000 and the company defaulted.

[3] Considering the year 2000 average exchange rate 21,693 ROL/USD communicated by the NBR.

PLANNED PUBLIC ISSUES							
ISSUE	ROL VALUE	$ VALUE	UNITS	COUPON	MATURITY	GUARANTEE	BANKER
Impact SA	50,000,000,000	$1,500,000	2,000,000	LIBOR + 400bps	2 yrs Callable Yr 1	Alpha Bank	Alpha Finance
BCR Leasing	66,000,000,000 - 99,000,000,000	$2,000,000 - $3,000,000	2,600,000 - 3,900,000		3-5 Years	None	BCR Securities

Municipal Bond Issuers: The most active issuers of domestic bonds in Romania are municipalities. Ten issues have come to the market, valued at ROL 141.5 billion ($4.3 million), with an average size of $430,000. Municipal issues in Romania trade in the market similarly to corporate bonds (See appended Chart 1).

International Issuers: Typical of high interest rate economies, issuers rely heavily on the issuance of bonds overseas. Romanian companies are taking advantage of record-low borrowing costs to sell debt to investors who are attracted by yields higher than those in neighboring countries set to join the European Union in 2004. Termoelectrica SA, one of Romania's largest power companies, has sold 200 million Euros of floating-rate notes. Rail company CFR Marfa sold 120 million euros ($119 million) of bonds recently. Four more Romanian companies plan sales next year (See appended Chart 2).

The government sold $700 million in Eurobonds in 2002[4] and said it plans to issue a maximum of $550 million next year. The government stated that it preferred to raise the additional funds in the domestic debt market where real interest rates are lower.

Description of Corporate Issuers

International Leasing SA: International Leasing SA was incorporated in 1995 as a private company. In December 2001, the company was transformed into a public company (IPO) and the shares were listed on RASDAQ starting 11 January 2002. The current social capital[5] of the company is ROL 21.3 billion ($635,620). Leasing operations is the company's main activity, generating ROL 84.3 billion in revenues ($2.5 million), representing 98% of its turnover as of 30 November 2001. Net profit as of September 2001 was ROL 3.7 billion ($110,000). At December 2001, the value of leasing agreements concluded was $7.75 million. (See Annex 1 for a summary of the leasing market in Romania.)

Impact SA: Impact SA was established through an IPO in December 1990. The company operates in the real estate industry (construction and housing). The company's shares are listed on the Bucharest Stock Exchange (BSE), second tier. The company has social capital of ROL 122.1 billion ($3.6 million), and a turnover of ROL 300 million ($8.95 million) as of September 2002. Net profits at September 2002 were ROL 124.5 billion ($3.7 million), with a total debt of ROL 200.1 billion ($6 million). In the 2001, the company reported net profits of ROL 78.2 billion ($2.3 million). (See Annex 2 for a summary of the construction market in Romania.)

Description of Investors

International Leasing stated that their second issue was very successful and fully subscribed in less than a week. Eighty percent of the issue was placed with a retail investors via security dealers. The high retail interest is different from municipal issues, and is contrary to what is the normal experience in issuing fixed and floating rate securities. Bonds are traditionally purchased by institutional investors and there is little retail participation. The exception to

[4] This is the longest maturity issued so far.

[5] Social capital is an accounting designation, which denotes the nominal value of the shares.

this would be issues that have tax benefit considerations (i.e., municipal bonds in the US and Romania). The Social Investment Funds (SIFs[6]) were interested in the International Leasing issue, but the issue sold out so quickly, due to the high interest rate, that the SIFs could not react quickly enough to purchase the bonds. Individual investor demand for the International Leasing deal was a function of the high coupon rate and the small principal amount of each bond. The principal amount was 25,000 ROL, less than one US dollar.

In the case of municipal investors, the major buyers have been SIFs with only a small amount of retail participation. SIFs are natural buyers of fixed income securities, since they are required to pay out dividends to their shareholders. BCR Securities which has managed five municipal issues, has stated that the SIFs have been the biggest buyers of their issues. The average sizes of their investments have been $100,000 - $200,000.

Characteristics of Instruments Issued

Corporate Issues: The two International Leasing issues were fixed rate issues. The first issue had a maturity of 1.5 years, and the second was for two years. The issues were denominated in Romanian ROL. The upcoming issue for Impact SA reflects the way that most of the upcoming issues will be structured. While it is nominally payable in ROL, the pricing of the interest and principal payments are based on a formula pegged to the dollar. Investors are more comfortable investing in dollar- or Euro-denominated issues than ROL-denominated issues in Romania. Interestingly, this appears to be more a matter of "tradition" and trust versus efficiency, considering that, over the last year, ROL deposits provided a far better return than USD deposits.

All the corporate issues have either insurance or a bank guarantee supporting the issues. The supporting documentation in both issues is weak and it is questionable as to how much protection is really given to the investor[7].

Municipal Issues: All the municipal issues that have come to market are Floating Rate Notes ('FRNs"). FRNs are normally issued in emerging markets where there is a perceived environment of rising interest rates associated with high inflation. Except for one issue maturing in April 2006, all the other issues have maturities of less than three years. The interest payments have been pegged at 200 - 300 basis points over the 3-month Bucharest Interbank Offered Rate (BUBOR)

The municipal issues have come to market without guarantees, because investors believe that municipals are more secure than corporate issuers for several reason: (i) municipalities must repay creditors prior to compensating staff salary; (ii) the perception exists that the Court of Accounts completes a high-quality financial audit of the jurisdiction's books; and (iii) the Law on Local Public Finance,[8] which limits total yearly outstanding debt service (including principal, interest and commissions) cannot exceed 20% of the city's revenues – including bank loans (Article 51).

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[6] Financial Investment Companies, in Romanian "*Societati de Investitii Financiare"*. The SIFs were created during the mass privatization of Romanian companies and operate as closed end funds.

[7] Please note that this is based on information received from the market players as we have had no access to any of these documents.

[8] Law No. 189/1998 as amended by Government's Emergency Ordinance No. 219/2000 subsequently amended and approved by Law No. 337/2001.

The perception that municipals are safer than corporate bonds is misplaced. Without the protection of a trustee or some type of credit enhancement, the ability of the investor to receive principal and interest turns into a political decision rather than a legal one.

Characteristics of Issuance and Underwriting Process

The first International Leasing offering was issued by a syndicate composed of three brokerage companies (Intercapital Invest – manager of the syndicate – along with Transylvania Capital Invest and Valmob Intermedia). It was issued on a best efforts basis. The offering was distributed as a public offering at the Bucharest Stock Exchange. The subscription period stipulated in the prospectus was between 2 and 21 May 2000, but the issue was outstanding only between 2 and 15 May 2000. Seventy three buyers subscribed. The prospectus stipulated the intention of the issuer to list the bonds on the BSE. However, BSE rejected this, apparently due to the small size of the issue and of the bondholders.

The second International Leasing issue was intermediated by a syndicate having InterCapital Invest as manager and BCR Securities as co-manager. Romanian Commercial Bank (BCR) also participated as member of the sales group, distributing the bonds through its branches. The offer was distributed on a best efforts basis. The prospectus stipulated the issuer's intention to list the bonds either on BSE or RASDAQ. After being rejected by BSE (apparently due to the small size of the issue), the issuer is currently negotiating with RASDAQ. The subscription period stipulated in the prospectus was between 11 to 30 March 2002, but the issue was outstanding only between 11 to 14 March 2002 and was oversubscribed (64% of the issue was subscribed in the first day).

The small Sticla Luxil convertible bonds issue was intermediated by a local brokerage firm, InterDealer Capital Invest SA. The offer was distributed on a best efforts basis. The prospectus stipulated the issuer's intention to list the bonds either on BSE or RASDAQ. According to the president of the brokerage firm and the president of ANSVM (National Association of Securities Dealers) who controls RASDAQ, currently the documentation has been submitted to the NSC for approval to be listed on RASDAQ.

B. PROSPECTIVE ISSUERS AND INVESTORS OF DEBT INSTRUMENTS

Prospective investors in corporate and municipal issues are

SIFs

Banks

Individual Investors

Foreign Investors

Mutual Funds

Insurance Companies

SIFs: SIFs are interested in diversifying their portfolios to meet their liquidity needs by investing in fixed income securities. However, this interest is significantly tempered by their aversion to risk. The risk aversion to bonds, in many cases, is due to a lack of experience in handling these instruments. As an example, one top manager mentioned he would prefer convertible bonds over fixed rate bonds because they were safer. Fixed rate bonds almost always have precedence over convertible bonds in the case of a bankruptcy. Below is the status of SIF bond purchases as of 30 September 2002, according to the quarterly reports to the NSC.

SIF BANAT CRISANA		
TYPE OF BONDS	ISSUER	PERCENTAGE IN THE TOTAL PLACEMENTS
Corporate bonds	SC Napomar SA	1.24%
	SC Vest Metal SA	1.11%
Municipal bonds	Alba Iulia	0.20 %
	Cluj Napoca	0.15%
Total bonds		2.70%

SIF Moldova	As of 30 September 2002, SIF Moldova had 6,100 corporate bonds totaling ROL 6.38 billion in its portfolio.
SIF Transylvania	As of 30 September 2002, total placements in bonds were ROL 10.2 billion, of which ROL 8 billion were corporate bonds issued by Transilvania Leasing SA, Predeal municipal bonds ROL 0.75 billion and Mangalia municipal bonds ROL 1.5 billion.
SIF Muntenia	As of 30 September 2002, SIF Muntenia had in its portfolio corporate bonds in the amount of ROL 3.3 billion
SIF Oltenia	As of 30 September 2002, SIF Oltenia had no bonds in its portfolio

Banks: Banks have not been buyers of either fixed rate or Floating Rate Notes (FRNs). Banks and broker dealers have indicated that the only purchases of corporate debt that they have seen from banks were to protect issues in the market to enable a successful offering. The lack of buying from banks is unusual, since banks are traditionally buyers of FRNs. They will buy FRNs when they are able to fund the bonds at a positive spread to their funding costs. Banks will also purchase FRNs as a substitute for loans to corporations. Typically a foreign bank branch will buy FRNs of a local corporation when they have fully utilized their credit exposure limit via direct loans.9

Individual Investors: Eighty percent of investors that purchased the last International Lease issue were individuals (natural persons), but their participation has not been as strong in municipal issues. Retail interest in the Impact SA issue is expected. Typically, retail interest will be seen in issues that have excellent name recognition. There is no bond rating system in Romania, leaving the investors to make their own credit assessment decisions. Typically, institutional buyers have the capacity to analyze the financial condition of companies and the prospects of potential investments to determine if they should buy the security. Retail investors generally do not have this analytical capability, so their investment decisions are based on the perceived reputation of the company in the Romanian economy. According to the NBR statistics, as of October 2002 the savings of the individuals were ROL 82,290 billions (USD 2.47 billion)

Foreign Investors: There has been little interest from foreign investors. Foreign demand will be most likely on a case-by-case basis. Currently issues are denominated in Romania ROL and not in other hard currencies.[10] A typical foreign buyer would have either ROL

[9] Alpha Bank has stated that banks cannot buy primary issues. Three other banks disagreed with this statement. Our reading of the law would indicate that banks could purchase bonds in the primary market. One reason for the lack of local bank participation in the FRN market may be they have met their credit exposure limits with the issuers.

[10] The general rule under the existing currency regulations is that transactions between Romanian residents should take place in ROL. However, there could be a possibility for NBR to exempt certain transactions (for more details see our comments under the subsection (viii) in the Capital Markets Settings for Bonds Market section below.

exposure from a subsidiary or have some economic tie up with the issuer. In addition to mutual funds, there are private investment funds such as New Century Holdings, Black Sea Fund and AIG New Europe that have investments in Romania.

Mutual Funds: Currently, there are 14 local open-ended Mutual Fund managers in Romania with assets of about $27,000,000.11 (See Chart in Appendix 3.) There has been limited participation from local mutual funds. They are a potential source of bond investment, as these funds currently have 60-80% of their assets in cash and T-bills. In addition to local mutual funds, there are 20 publicly offered open-end mutual funds that have exposure to Romania. Their assets total $21,000,000.12

Insurance Companies: At the end of year 2001, a number of Romania's 47 insurance companies, having total assets of ROL 11,716,948 millions (USD 350 millions), were authorized to operate on the Romanian market.13 At the end of 2001, out of 47 companies, 27 had foreign participations (61.69% of the total social capital). According to CSA, as of 30 November 2002, 50 insurance companies were authorized to operate in the market.

Prospective Issuers

There are six areas of the economy that are potential candidates for issuing corporate bonds. There are two donor funded investment funds in Romania—the Romanian American Enterprise Fund and the Post Privatization Fund. While their mandate is equity investment, their portfolio companies would be excellent candidates to issue bonds.

In addition, there are State Owned Enterprises in the domestic markets.

Utilities	Gas Distribution (From pipe to location): Vital Gas Internet providers voice over IP: PC-NET
Leasing Companies	International Leasing BCR Leasing Volksbank Leasing Motoractive
Construction	Sanex (Tile)
Hotel and Resorts	ANA Group Grivco
Pharmaceuticals	Sicomed Terapia Antibotice
Railroad Infrastructure	ISAF (Switches)

State Owned Enterprise Issues in the Domestic Market: One of the most effective ways to jump-start the corporate bond market in Romania is the issuance of a bond by one of the State Owned Enterprises ("SOE").14 The major hurdles that Romania faces in the development of a corporate bond market are:

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[11] UNOPC Romania

[12] Investment Company Institute 2nd Quarter 2002

[13] 2001 Insurance Industry Report, prepared by the insurance regulatory body (Insurance Surveillance Commission or "CSA").

[14] Of the potential issuers, National Roads and Transelectrica showed interest in working with Deloitte and USAID on a dual issue.

- A lack of benchmark government securities for pricing issues.
- An inconsistent regulatory structure for bond issuance.
- A lack of credible offering documentation.
- A lack of historical alternatives to bank financing for corporations.
- No credit rating agency.
- Broker/dealers without the necessary expertise to advise issuers.
- Issuers who do not have the expertise to evaluate alternative sources of financing.

By using a State Owned Enterprise such as the National Roads Agency, Transelectrica, Termoelectrica or Hidroelectrica, some of the constraints that are faced by private companies looking to issue bonds could be removed. For instance, SOEs could offer a dual tranche issue that would involve two issues with one offering circular. The SOE would issue a separate domestic tranche in conjunction with the international tranche. The tranches could be the same, or have different offering terms. An example would be a five-year tranche in the international markets and a three-year issue in the Romanian capital market. Both or just one issue could be listed on the Bucharest Stock Exchange (BSE) based on investor demand. Some of the advantages of a dual issue would be:

- Bringing an issuer into the market that is well known to both institutional and retail investors. This mitigates some of the problems associated with the absence of a local credit agency, since the international issue will have a credit rating.
- Bringing a $5-$10 million issue to the market. The Social Capital maximum issuance regulation that applies to domestic corporations would not be a problem for the SOEs. For instance, the National Roads Agency is not subject to this regulation, while Transelectrica, Termoelectrica and Hidroelectrica have very large social capital.[15] (See Challenges and Constraints section.)
- Helping to alleviate bureaucratic bottlenecks at the National Securities Commission (CNVM) by introducing a standardized prospectus based on international standards.
- Accelerating and identifying listing requirement problems at the Bucharest Stock Exchange or RASDAQ for bonds.

PROSPECTIVE INSTRUMENTS	
Size	The largest issue that has come to market is approximately $600,000. Impact SA is scheduled to issue $1.5 million in FRNs. The market can probably handle up to a $3 million issue currently. It is doubtful that an issue for a $5-$10 million could be absorbed in the market until a history of issuance is established in Romania.
Terms	The market continues to look for FRNs because it is the safest instrument in which to invest. The market will likely shift to fixed issues if interest rates continue to decline. The threshold for investor demand will be a minimum of 200 basis points over risk-free investments, such as government securities. The current maximum maturity would be 3 years.
Guarantees	Buyers are demanding bank or insurance protection if they purchase bonds. This is not unusual in emerging markets, where corporate bonds are normally unsecured in developed markets. The current cost of a guarantee is between 2-3% of the proceeds, making the cost of issuing uncompetitive with bank borrowing. The market will develop for unsecured bonds for prime quality names, which is why the issuance of a State Owned Enterprise (SOE) issue to jumpstart the corporate bond market effort in Romania could help.

[15] Transelectria share capital: USD 148,497,664
Termoelectrica share capital: USD 736,897,317
Hidroelectrica share capital USD 1,043,592,778

2. Capital Markets Setting for Bond Markets

A. Legal and Regulatory Setting for Debt Issuance

The legal framework applicable to securities issuance, including bond issuance, consists of the following laws and regulations:

- The Companies' Law (Law No.31/1990 as subsequently amended and republished)
- The Securities Law (Emergency Ordinance No. 28/2002 as amended by Law No. 525/2002, by the Emergency Ordinance No. 122 / 2002 and by the Emergency Ordinance No. 165/2002)
- NSC's Statute (Emergency Ordinance No.25/2002 as amended and approved by Law No.514/2002)
- NSC's Regulation No.6/1995 on public offerings
- NSC's Instructions No.5/1995 regarding the reporting of the results of a public offering
- BSE's Regulation No.6/2000 regarding securities registration and deposit
- BSE's Regulation No.3/2001 regarding securities listing on the BSE
- BSE's Procedure No.3(1)/1999 on the application of Regulation No.3/2001
- BSE's Procedure No.3(2)/1999 on the fees applicable in relation to Regulation No.3/2001
- BSE's Regulation No.14/2001 regarding operations with bonds
- BSE's Procedure No.4(7)/2000 on the trading of bonds

In general, even though Romania has had securities regulations since 1887 (in the old Commercial Code), corporate bonds were very rarely used or issued in Romania. Therefore, the legal provisions described below are rather theoretical in nature and based on interpretation of the law and on the texts of the relevant legal scholars, while there is no jurisprudence to exemplify the interpretation of the applicable texts of law by the Romanian Courts.

The legal regime of corporate bonds under the Romanian Law is mainly regulated by the Companies' Law, which dedicates an entire section to the bonds, the issuance requirements, types of bonds and the rights of the bondholders (see Section 5 under Title III, Chapter IV in the Companies' Law).

Under the Companies' Law, only companies established as joint stock companies (also known in Romania as "SA") can issue bonds. The bonds issued in a certain issue should be equal in value and should provide each of the bondholders with the same rights. Bonds can be materialized or not, and may be issued as bearer or nominal bonds. The nominal value of a bond should not be less then ROL 25,000. In the case of convertible bonds, the nominal value of a bond should be equal to the nominal value of a share. (See Article 162 and 165(5) in the Companies' Law).

Importantly, according to Article 162(1) in the Companies' Law, a company is allowed to issue bonds only up to a total amount which should not exceed three quarters (75%) of the social capital according to the most recently approved balance sheet. Social capital is an accounting designation, which denotes the nominal value of the shares. It is generally much smaller than shareholder equity, and is not representative of the financial resources or value of the company. The 75% rule is arbitrarily determined, and is a major impediment to the development of the capital market, especially the debt market.

While the text of the law is not very clear, the relevant doctrine is unanimous in interpreting the restriction as applicable to the cumulative value of existing bond issues (that is to say, the value of all the outstanding bonds should not exceed 75% of a company's share capital). In practice, this restriction severely affects the use of corporate bonds as a financing method by introducing a *legal* limitation to the amount of funds that can be raised by a company through a bond issue.[16] The restriction applies only to bond issues, and not to other types of financing (like bank loans for example).

Bonds need to be fully paid at the subscription rate (Article 165(2) in the Companies' Law).

The issuer is required to maintain a bondholders registry containing the total number of bonds issued, and those that have been repaid, as well as the name and domicile/headquarters of the bondholders (for nominative bonds). In the case of bonds issued through a public offering, the registry should be maintained with a registry company authorized by the NSC.

- **Bondholders' Rights:** Bondholders' rights are regulated under Articles 166 to 170 in the Companies' Law. Thus, bondholders are entitled to organize themselves in the Bondholders General Meeting to deliberate relative to their rights. The issuing company shall have to bear the cost of summoning the Bondholders General Meeting if requested by a number of bondholders representing a quarter of the outstanding bonds, or if requested by the representatives legally appointed by the bondholders. The General Meeting has the following attributions:
- To appoint a representative of the bondholders, entitled to represent the bondholders in the issuer's shareholders meetings (as observer without any voting rights) as well as in court.
- To act for the protection of the common interests of the bondholders, or to appoint a representative in this respect.
- To establish a fund to support the eventual expenses needed for the protection of bondholders' interests.
- To oppose any amendments to an issuer's statutes or to the terms of the bond issues that could damage bondholders' rights.
- To take a position in relation to the eventuality of any future bond issues.

Public Offerings: Under the Companies' Law, when bonds are issued through a public offering, the issuing prospectus should disclose the following, at a minimum:

- Name, object of activity, registered office and duration of the issuer.
- Paid – in capital and reserves.
- The date of publication in the Official Gazette of the decision of incorporation of the issuer, and any amendments to the statutes.
- Registered assets according to the latest approved balance sheet.
- Types of shares issued.

[16] This restriction originates back in the old Commercial Code of 1887. Interestingly, the provisions in the Companies' Law (enforceable since 1990 and republished in 1997) have introduced an even more restrictive regime compared to the one in the old Commercial Code. Specifically, the old regulations were limiting the size of outstanding bonds to the amount of paid in capital (compared to the current 75%) and such restrictions were not applicable in cases when bonds were secured with treasury bills owned by the issuer or with mortgages on issuers' properties.

- Total amount of previously issued bonds, and of bonds to be issued, the method of reimbursement, the nominal value of the bonds, the interest, whether they are registered or bearer bonds, as well as whether they are convertible.
- Any charges on the issuer's estate.
- The date of publication of the issuer's extraordinary shareholders' meeting approving the bond issue.

In addition to provisions in the Companies' Law, when issued through a public offering the respective bonds are also subject to the provisions in the Securities Law. Under the Securities Law, bonds (both municipal and corporate) are qualified as securities ("*valori mobiliare*" in Romanian). Article 65 in the law requires that, for the purpose of authorizing a public offering of securities, the issuer shall submit to the NSC an authorization request accompanied by an announcement and the offering prospectus. The announcement shall contain the essential elements of the transaction, depending on the titles which are the object thereof, and all material information with respect to the issuer and the securities to be publicly offered, irrespective of whether such information is or is not subject to the legal obligation of publicity, disclosure or registration. The information that must be included in the prospectus shall be certified by the issuer who shall be liable for the truthfulness, correctness and completeness thereof. In the cases regulated by the NSC, the information in the prospectus shall be also certified by the financial auditor of the issuer. The minimum content of the information that must be included in the prospectus, the presentation thereof by categories of offerings, and the documents that must be attached to the prospectus for authorization purposes are yet to be established by the NSC in the regulations to be issued in this respect.

Public Offering Fees: NSC's Statute as regulated under the Emergency Ordinance No.25/2002, and as amended and approved by Law No.514/2002, stipulate under Article 13(2)(c) that a tax of 0.5% of the total value of a selling public offering is due to NSC. The law does not make any distinction between primary and secondary public offerings. Therefore, the 0.5% is also applicable in case of primary offerings. The law is silent as to who should support the said tax, and it is expected that NSC shall issue a regulations explaining in detail the collection and payment procedures for this tax.[17]

General Listing Requirements: Once a company issues bonds (as well as any other securities) through a regularly promoted and successfully concluded public offering,[18] the respective company is then deemed to be a publicly held company (Article 2(1)(39) and

[17] Under the regulation which previously regulated NSC's taxes (i.e., Regulation No. 1 / 1999) the 0.5% was due and payable by the issuer within no later than 5 days after the closing of the subscription and failure to make the payment would have resulted in the cancellation of the public offering (see Article 3 in NSC Regulation No.1 / 1999).

[18] The Securities Law does not explain what is a "regularly promoted and successfully concluded" public offering. It is expected that the new regulation on public offerings to be issued by NSC shall clarify this matter. Under the previous NSC Regulation No. 6/1995 on public offerings, a "regularly promoted and successfully concluded" public offering meant that (a) the securities offered were subscribed and paid by a minimum of 50 persons and (b) a minimum of 10% of issuer's shares are held by the public. Interestingly, under the former regulation, a company was deemed to be publicly held only in cases when either shares or other securities convertible to shares have been issued to such public offering.

Article 103 in the Securities Law. Furthermore, within a month, the respective company shall have to apply to a regulated market asking for the listing of the respective bonds.

In particular, bonds issued by the state (such as, for example, municipal bonds) are listed on the stock exchange by law, further to the approval of the prospectus by the NSC and the registration of the bonds with the Securities Registration Office (known in Romania as "OEVM"). Under the Securities Law, the corporate bonds issued through a public offering also need to be first registered with the OEVM to be traded on a regulated market.

Bucharest Stock Exchange Listing Requirements[19]: Listing requirements for the base tier are:

- Registration at the Securities Registration Office.
- The securities listed must be freely transferable.
- Securities registration requirements (admission at the Exchange Listing is effected for (a) book entry form securities and (b) paper form securities, immobilized according to the Exchange procedures. The issuer is bound to conclude a Registry Contract with the Exchange or with an independent registrar connected to the BSE trading and CDS system.
- Delivery of adequate services to securities holders (appropriate information flow).
- The social capital should be of at least the equivalent in Romanian currency (Lei) of 2 millions Euro, calculated at the rate of exchange established by the National Bank of Romania (NBR).
- Disclosure requirements to provide the investing public with equal access to the information required for its investment decisions.
- Liaison with the Exchange (the issuer will appoint a Liaison Person to maintain a permanent contact with the Exchange).
- Auditing the information provided by the issuer.
- To be listed and maintained on the Exchange, the issuer will comply with the terms and provisions of the Listing and Maintenance Agreement.

Listing/up-grading requirements for tier I are, in addition to the requirements for the base tier:

- The issuer has to have been in operation for the last three years.
- The issuer must have a record of net profits in the last 2 years of operation. The calculation of the net profits will not take into account financial revenues.
- The social capital should be of at least the equivalent in Romanian currency (Lei) of 8 millions Euro, calculated at the rate of exchange established by the NBR.
- Management and other aspects regarding the issuer's activity
  - The Exchange may assess the expertise and moral integrity of the issuer's management, as well as any other aspects regarding its economic and financial performance, such as working capital, cash-flow, etc.
  - The issuer has to submit the cash flow for the last calendar operational year.
  - The issuer has to submit a business plan for the next two calendar years.

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[19] SEE BSE REGULATIONS NO. 3 ON SECURITIES ADMISSION TO THE OFFICIAL LISTING AS APPROVED BY NSC'S DECISIONS NO D1363/6 AUGUST 2001.

- At least 30% of the issued outstanding bonds must be held by at least 1,000 bondholders, without taking into account related persons and the issuer's employees. Each of these 1,000 bondholders has to hold a number of bonds whose total nominal value amounts to at least 300,000 ROL. The above-mentioned 30% has to represent at least 50,000 bonds.

RASDAQ Listing Requirements: Currently, RASDAQ does not have any specific requirements regarding listing of bonds. ANSVM elaborated in the past a regulation regarding bond listings and trading, but this was never approved by the NSC.

Tax Issues Related to the Issuance and Trading of Bonds

Taxation of Individuals: In respect of corporate bonds, the interest received by individual bondholders is taxed at 1%, according to the provisions under Article 34 and 36(2) in Ordinance No. 7/2001 regulating income tax, as subsequently amended and approved by Law No.493/2002. The 1% tax is final. For non-residents, the law shall be correlated with the provisions in the corresponding double tax treaty (if any).

The income received by individuals from municipal bonds is exempted from any income tax (see Article 35(1) in the Ordinance No. 7/2001).

Taxation of Legal Entities: The income received by Romanian legal entities from bonds is not subject to a specific tax, and is added to the other income and included in the profit tax calculation. The profit tax rate in Romania is 25%. Non-resident legal entities are subject to taxation in accordance with the corresponding provisions in the applicable double tax treaty.

Romania is a changing legal environment and according to recent information, the tax laws will be changed again soon. Thus, it has been recently stated by the authorities that the interest and dividends earned by individuals will be included as taxable income in the global taxation system as of 2003 or 2004. Thus, those revenues will be imposed income tax rates of at least 15%. Moreover, while corporate profit tax would likely be cut to 20% in 2004 from 25% currently, the tax rate paid by companies for their income from dividends will be hiked to 12%-14% from the current 10%.

Accounting/Audit Standards That Apply to Debt Issues: Currently, publicly traded companies do not have a uniform regime with respect to accounting/audit standards. Romania is currently in a transition phase for the implementation of the Accountancy Regulations Harmonized with the European Community's 4th Directive, and with the IAS. Thus, starting with financial statements for year 2000, a number of the 72 companies traded on the BSE and another 105 companies traded on the RASDAQ apply the Harmonized Accountancy Regulations in accordance with the Ministry of Finance's Order No.94/2001. Moreover, on 10 December 2002 and 17 December 2002, the NSC and the Ministry of Finance, respectively, signed a joint Order for the approval of the Harmonized Accountancy Regulations applicable to the institutions regulated and supervised by the NSC. (NSC has yet to publish the list of those entities that will be subject to this order.)

During the transitional period, the financial statements of those publicly traded companies that have already implemented the Harmonized Accountancy Rules will be audited by financial auditors that are members of the National Chamber of Auditors. For the others, the role of the financial auditors will be "played" by the independent external censors (who have similar training and experience as that of the auditors, but are not certified and authorized to audit financial statements elaborated according to the Harmonized Accountancy Rules).

Regulatory/Supervisory Oversight

General: The NSC is the authority that regulates provisions of the Securities Law, as well as conducts surveillance and monitors compliance with its provisions. For this purpose, the

NSC is vested with regulatory and supervisory powers, including the powers to authorize, delegate, decide, prohibit, intervene, monitor, inspect, inquire and apply disciplinary and administrative punishments under the conditions, in the manner, and within the limits established in the law (Article 5 in the Securities Law).

The NSC is an autonomous administrative authority, having legal personality established with the purpose of regulating and supervising the capital market, the regulated commodity and financial derivative instruments markets, and their specific institutions and operations. NSC is subordinated to the Parliament, and it exercises its authority throughout the territory of Romania.

The basic objectives of the NSC according to its Statute are to:

- Draw up and maintain the necessary framework for the development of regulated markets.
- Promote trust in regulated markets and in financial investment instruments.
- Ensure the protection of operators and of investors against unfair, abusive and fraudulent practices.
- Promote the fair and transparent operation of the regulated markets.
- Prevent market manipulation and fraud, and ensure the integrity of regulated markets.
- Establish standards of financial soundness and honest practice in the regulated markets.
- Take all necessary actions to prevent systemic risk on the regulated markets.
- Preserve equality of notification and treatment of investors or the interests thereof.

The NSC is entitled to establish and has the ability to apply penalties if a breach of legal provisions and regulations has occurred. The NSC can apply fines determined as follows:

- Between 0.5% and 5% of paid in capital, depending on the significance of the offence, for legal entities.
- Between half and the entire value of the transaction, or between the entire amount and double the amount of profit obtained (or of the loss avoided) from the transaction if accomplished by violating Article 133 (i.e., unauthorized use of privileged information). Setting the actual amount of the penalty depends on which amount is bigger (e.g., when the double of the profit derived or the loss avoided under the transaction is higher than one half of the value of the transaction).

When the fine is applied to individuals, its limits are between ROL 50,000,000 and ROL 200,000,000, and the limits may be updated by Government decision (Article 177 in the Securities Law).

In addition, non-observance of the legal requirements of the Securities Law can result in the cancellation of an offering undertaken without NSC's authorization.

Other Regulatory Issues ---Issuance of USD/EURO denominated bonds: Under the Currency Regulations,[20] the rule is that any payments made on Romanian territory between Romanian residents should be made in ROL (Article 18 in Regulation No.7/1997). The exceptions to this rule are restrictively stipulated under the Currency Regulations, and the issue of bonds does not fit into the description of such exceptions. However, in addition to the said restrictively defined exceptions, the Currency Regulations also contain a provision that appears to allow the NBR the discretion to give an exemption to the rule. Thus, Article 20 stipulates "the individuals and the legal entities who can prove the need to conduct foreign

[20] NBR Regulation No. 7/1997 as subsequently amended.

exchange [denominated] transactions with other residents may ask for an authorization from the National Bank of Romania […]". Such authorizations are basically at the sole discretion of the National Bank.[21]

B. Infrastructure

Depository System, Clearance and Settlement: Custody services

For both BSE and RASDAQ, settlement cannot exceed 3 working days from the date of the transaction (Article 1 in NSC's Regulation No.5 / 2000).

BSE: Settlement takes place three days after trading (T+3) on a delivery versus payment basis (DVP). The following table summarizes the T+3 settlement cycle:

Day	Procedures
T	Following the end of the trading session, the BSE submits to each brokerage house the reports on Trading, Commission, Clearing and Settlement. The custodians receive only the Clearing and Settlement reports
T+1	Confirmation of the reports by the brokerage houses and custodians
T+2	Resolution of eventual litigations on the reports submitted by the BSE
T+3	The BSE issues the Balance of final settlements, based on which the NBR will settle the cash. Following the NBR's settlement confirmation, the BSE will transfer the shares and cash to each client account.

The BSE ensures technical and logistical support for the processes of settlement, clearing and shareholder registry. To facilitate the clearing and settlement operations, each broker (also a member of the BSE) has an account with a settlement bank, which, in turn, holds a clearing account with the NBR. In addition, a blank payment order issued by the securities broker's bank is submitted to the BSE to cover special circumstances, and a contribution to the Guarantee Fund is paid.

Custodian operations: Depository accounts can be opened both with the brokerage houses and with custodian banks. When a client operating through a custodian places orders on the market, it must instruct the custodian on the trade before the end of the trade day. Brokers also have to check that their client has sufficient securities/money to fund the operation. In a sell operation, the BSE trading software automatically checks the availability of shares in the client's account.

Registry operations: The BSE has its own shareholder registry, which is organized into three sections:

- Bondholders who never opened an account with a broker.
- Clients who have already opened an account with a broker.
- Brokerage houses' proprietary accounts.

[21] From a practical perspective, it is interesting to mention that we have been told by an in-house council of a bank that NBR has issued once in the past such an authorization for a local foreign currency bond. To clarify whether NBR has a coherent policy in this respect, we could approach the regulator with an official letter asking for their point of view (this method was sometimes successfully used in the past in order to get a clarification of NBR's understanding and manner of interpretation of other regulatory issues).

Bonds are registered and transferred to the BSE Registry separately for each series of bond issues. For each account, the bonds are registered distinctly for each series of bond issues.

The charges over bonds (if any) can be registered in the BSE Registry based on a request signed by all the parties involved.

A bond issue can be removed from the BSE Registry at maturity, in the case of anticipated repurchase or when the bonds would be de-listed from the BSE.

In addition to the BSE Registry, two other private registries also operate on the BSE.

RASDAQ: Settlement on the RASDAQ is done through the National Securities Clearing, Settlement & Depository Company ("SNCDD"), which functions as an Interbanking Clearing House and coordinates the settlement of funds and securities on behalf of the direct users of the system. Currently, SNCDD uses the Trade for Trade System (T/T) to process transactions. For settlement, the system shall compensate the value for all the transactions settled, for which the delivery of the securities was realized through a single settlement value, through SNCDD's system. The payments are made through the National Bank on the settlement date.

Trading Systems

BSE: The BSE is an electronic order-driven market.. Most brokerage houses trade remotely from their offices, but the BSE still offers trading floor facilities. From November 1999, the BSE fully implemented a new trading system ("Horizon"), a Windows-based application developed by the Canadian software house EFA Software Services Ltd.

In addition to the main market, a new market was created within the BSE in the first half of 1999, called the 'unlisted market'. On this market, stocks which have been de-listed from the BSE or at their special request can be traded on a daily basis. There are no requirements from the BSE as to the maximum price variation or the level of corporate information disclosure.

BSE is trading daily from Monday to Friday. The trading hours for bonds are:

Market	Market Status			
	PreOpen	Continuous Trading	PreClose	Close
Order-Bonds	N/A	11:00 - 13:00	N/A	13:00
Deal-Bonds	N/A	11:00 - 13:00	N/A	13:00

N/A = Not applicable

Source: Bucharest Stock Exchange

To support bond trading, BSE issued Regulation No. 14 and Procedure No.4(7) in 2001 regulating the trading of bonds. BSE's Regulation No.14 and Procedure No.4(7) are applicable for both municipal and corporate bonds, irrespective of whether their maturity is less or more than one year or whether the bonds are interest bearing or discounted bonds. They are applicable to transactions with bonds on the primary market (primary public offering) as well as on the secondary market.

The settlement and the transfer of securities in the Registry shall be made in accordance with BSE's regulations and procedures in T+3. On a case-by-case basis, BSE may also establish other terms for the settlement subject to NSC's approval.

The trading of ROL denominated bond issues shall be made in ROL, while for bond issues denominated in other currencies the trading may be made in the respective currency provided that the competent authority (i.e., NBR) would approve this. The regulatory framework of BSE was designed to be comprehensive enough to be able to absorb any eventual hard currency issues which would be approved by NBR as a derogation from the rule (see comments above regarding the restrictions under the Currency Regulations for issuing bonds in a foreign currency). BSE regulations establish certain conventions as to the calculations of accrued interest, the value of a transaction (both for fixed interest bonds and floating rate bonds), the types of orders that can be used in bond trading ("limit orders" or "market order"), the procedures for the amendment/cancellation of an order, and the priority of execution.

RASDAQ: Currently, RASDAQ does not have any enforceable regulations in place in relation to the trading of bonds.

3. Macroeconomic and Financial Sector Setting

Economic Growth and Indicators

GDP growth in real terms was reported to be about 4.4% in 2002, the third consecutive year Romania has experienced real growth after many years of decline. The CPI inflation rate remained high, at 22.5%, although this is vastly improved from prior years. CPI inflation ended at about half the rate that existed at end 2000. One-year lending rates declined in nominal terms, from 45.1% to 36.6%. Nonetheless, this decline was less than the decline in the inflation rate. Thus, real borrowing costs have increased for enterprises, a trend that began in 1999. Savings to GDP declined to 5.37% in 2002, the fourth consecutive year in which this ratio has declined. (See appended Table 4.)

Government Debt Market

There were only 7 total sovereign debt issues outstanding as of end 2002. These were valued at ROL 194,002 billion, or $5.9 billion-equivalent. This averages $839 million, and accounts for the vast majority of debt market activity in Romania. (See appended Table 5.) Government-issued debt accounts for nearly 100% of the total debt market in Romania. (See appended Table 7.)

Banking Sector

Based on NBR estimates for 2002, banking assets as a percent of GDP declined to 28.4% as compared with 30.5% in 2001. (This compares with 20.4% (2001) and 25.8% (2002) based on IFS figures.) This is down substantially from nearly 40% in 1997-98. Domestic credit continued to shrink as a percentage of GDP, down to 11.2% in 2002 compared with 13.5% in 2001. (Again, when compared with IFS figures, the trend line is different. Based on IFS, bank credit-to-GDP increased from 13.5% in 2001 to 14.4% in 2002. The major difference appears to be in bank credit to Government, which remained fairly constant at 3.35%. NBR figures showed this to be only 1%.) Meanwhile, nominal interest rates continue to decline, with the "prime rate" for local currency loans declining from 45.1% at year-end 2001 to 36.6% at end 2002. Net spreads also declined, from 18.7% in 2001 to 14.8% in 2000. This is the lowest net spread for commercial banks since 1998. (See appended Table 6.) However, with the decline in aggregate lending, enterprises may not be benefiting substantially from the rate declines.

As noted above, nominal interest rate declines have been less than inflation rate declines. Meanwhile, savings rates have also declined.

4. Challenges, Constraints, and Prospects for the Development of Domestic Bond Markets in Romania

Challenges and Constraints for Issuers and Investors

Overview: The development of a domestic bond market hinges on, among other things, a number of macroeconomic factors. These include sufficiently strong economic growth that could generate appropriate issuers and investors, as well as a stable and sufficiently low interest rate environment that could facilitate investment, especially in fixed-income instruments.[22] The challenges and constraints of developing a corporate bond market in Romania are great, but far from insurmountable given the current economic developments in Romania.

Legal Constraints: Under Company Law in Romania, a corporation is restricted to issuing bonds to a maximum of 75% of its social capital. This issuing ceiling is a major impediment to the development of a local debt market. The 75% social capital limitation has no economic reason to exist in a modern capital market. This is a major constraint that will result in all issues being small and un-tradable, forcing the maturity of issues to be shorter than required by the issuers and buyers. In discussions with lawyers, brokers and bankers, all recommended that the 75% requirement be modified.

Regulatory Constraints: Robust market infrastructure is indispensable for the smooth functioning of debt markets. These systems should be governed by clear and unambiguous rules and procedures that are soundly enforced and made freely available to interested parties. Such information would enable market participants to understand clearly their roles, responsibilities and liabilities. It also allows market participants to form clear expectations about the operation of the systems in times of stress and the financial risks involved. Specific regulatory constraints in Romania are elaborated upon below.

NSC has an unwritten rule that a bank or insurance company must guarantee each deal, which is adding costs of between 2–3% to each offer. Credit enhancement is ordinarily a market driven requirement, not regulatory driven. For instance, some suspect the current Impact SA corporate bond issue remained bottled up at the NSC due to a lack of insurance guarantees. There are only a few insurance companies that are willing to provide credit enhancement in Romania. For example, Impact SA has arranged a guarantee from Alpha Bank and is proceeding with the issue. This requirement has resulted in a delay of five months in bringing the issue to market. While it is not unusual to have credit enhancements in emerging markets, in Romania, the enhancement cost makes the issue uncompetitive with the alternative of bank financing. The 2-3% fee paid to the insurance company would be better given to the investors for taking the risk of an unsecured issue, as is the custom in most developed markets. Credit enhancement is a market driven requirement, not regulatory driven.

There is no pre-selling structure via a preliminary prospectus or offering circular. The terms and conditions cannot be changed once the registration statement is filed at the NSC. This problem needs to be rectified. Based on the proposed new law, it does allow for the use of a preliminary prospectus. If not that, at a minimum, the price does not have to be set in the

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[22] "Building Local Bond Markets", *Building Local Bond Markets: An Asian Perspective,* edited by Alison Harwood, International Finance Corporation, 2001.

filing document. NSC needs to permit a "pre-pricing" mechanism in the prospectus, so brokers can use this information to assess potential buyer interest. The pricing structure needs to be flexible since interest rates change daily.

There is also no standardized bond prospectus documentation. The documentation process at the SEC is equity driven, with little understanding that bonds are traditionally an instrument for institutions and not retail investors. The prospectus documentation process needs to be standardized for the benefit of both the issuer and the investment bankers.

Stock Exchange Constraints: The Bucharest Stock Exchange (BSE), under Regulation No. 3, has a requirement of 1000 bondholders for 30% of an emission to be listed on the First Section of the exchange. This is an impossible requirement and has little to do with corporate or government bond markets. A $100 million Eurobond does not have 1000 subscribers. Even more inconsistent, if a company is not qualified to be on the First Section, there is no listing requirement. The Exchange is aware of the problem for First Section listings. It plans to waive this requirement and the listing fees to promote corporate bond markets. While this is very positive, to be listed, the process still involves the need to deal with the listing committee, which can create arbitrary listing rules.

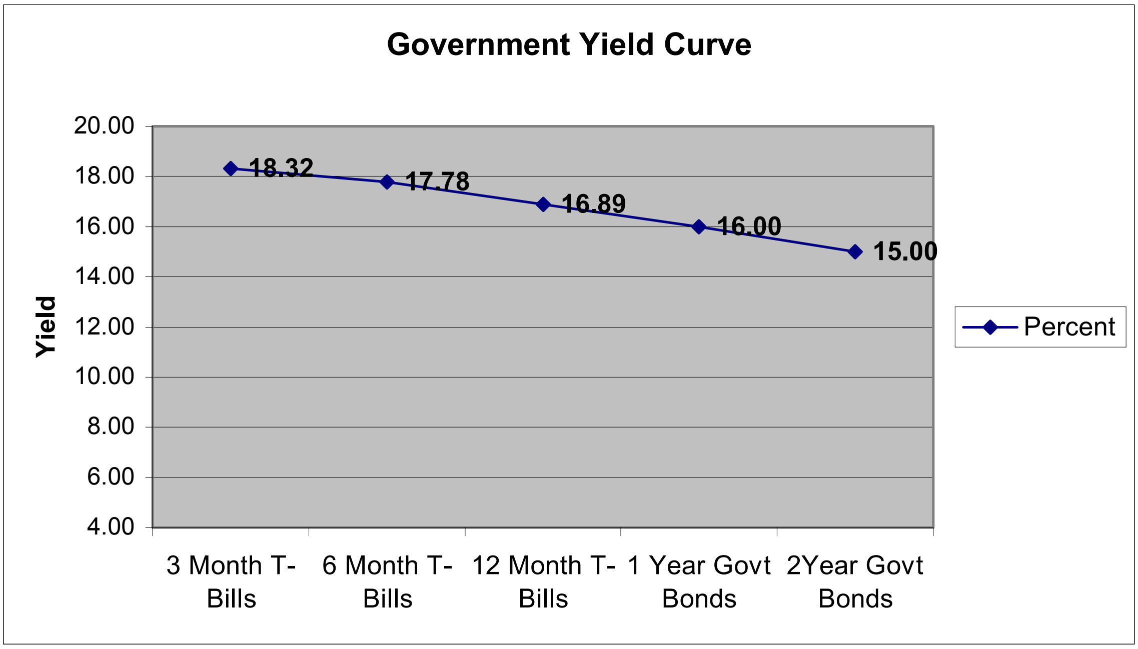
Challenges and Constraints regarding Market Infrastructure

Benchmark Yield Curve: A key feature of liquid bond markets is a benchmark yield curve that is comprised of the yields on several standardized bond issues. Standardized bond issues that are simply structured (e.g., have no redemption or call features) are more easily understood by market participants, and can be more readily priced. Therefore, they are more likely to be successfully traded. Accurate and reliable benchmark yield curves promote financial efficiency and use of instruments of financial intermediation. Reliable pricing for bonds in a domestic market encourages investors and intermediaries to participate, making it easier for issuers to raise funds domestically, specifically corporate bonds. The government bond market is very often expected to be the foundation for the broader domestic bond market.

Unfortunately, the MOF as agent for the Central Bank is not taking the lead in helping to develop a consistent benchmark yield curve. Currently the longest maturity issued by the MOF is two years, but it is in State's plans to extend the maturities to more than two years.

The lack of a consistent schedule of issuance by the government has resulted in an inconsistent yield curve, which is a deterrent to the growth of the corporate bond market in Romania.

YIELD CURVE AS OF 12/18/02



Credit Rating Agencies: Independent private credit rating agencies play an important role in bond market development. To enhance the credibility of credit rating services, governments should exercise care in designing rating-related policies. In general, governments should avoid setting minimum credit rating requirements for bond issuers and should carefully evaluate the potential implication for the financial system and financial market participants when considering any ratings-based regulations. Credit rating agencies should also be encouraged to maintain the highest possible level of transparency and objectivity in their rating process.

Currently, there is no bond-rating agency for domestic securities. In fact, there is very little research being done on companies by the broker dealers. Only BRD, ING, Alpha Finance and Capital Securities are active currently. The lack of a rating agency is not a major hindrance to the growth of the corporate bond market at this stage in the development of the market, as credit rating agencies tend to develop and be successful as the number of issues in the market increases.

Broker/Dealers and Bank Broker/Dealer subsidiaries: Currently broker dealers do not understand the investment banking process and winning mandates to issue bonds for customers.[23] Normally bankers and brokers should be visiting with their clients to encourage potential new issuers.

[23] When one broker dealer was asked if they were working with both issuers and buyers in creating new issues for the market he said no. After asking the same question differently it was obvious by his answers that there is no investment banking function at the broker-dealers.

CHART 1: MUNICIPAL ISSUANCE

NO.	ISSUER / BROKER	ISSUE SIZE	SUBSCRIPTION CLOSING DATE	RATE (PER YEAR)		COUPON PERIOD	MATURITY	TYPE OF BONDS
		ROL		FIXED	FLOATING			
1	Mangalia BCR	10,000,000,000	25 October 2001		[(BUBID[24]+BUBOR[25]) /2] +2% 36% for Ist quarter	Quarterly	½ repayable on 31 October 2002 ½ repayable 24 months after end of subscription period	Nominal, Dematerialized, Non-convertible
2	Predeal 1 BRD	5,000,000,000	19 October 2001		[(BUBID+BUBOR)/2] +3% 37% for the 1 st quarter	Quarterly	½ repayable on 30 April 2002 ½ repayable 18 months after confirmation by NSC of the closing report	Nominal, Dematerialized, Non-convertible
3	Zalau BCR	10,000,000,000	12 June 2002		[(BUBID+BUBOR)/2] +2% 35% for the 1 st quarter	Quarterly	½ repayable on 30 April 2003 ½ repayable in 731 days since the expiry of the subscription period	Nominal, Dematerialized, Non-convertible
4	Alba Iulia BRD	16,000,000,000	31 iulie 2002		[(BUBID+BUBOR)/2] +2% 32% for the 1 st quarter	Quarterly	4 equal installments 30 January 2003 30 July 2003 30 January 2004 30 July 2004	Nominal, Dematerialized, Non-convertible
5	Cluj Napoca Transilvania	25,000,000,000	21 August 2002		[(BUBID+BUBOR)/2] +2% 34.28% for the 1 st quarter	Quarterly	½ repayable on 17 February 2003 ½ repayable in 12 months since the expiry of the subscription period	Nominal, Dematerialized, Non-convertible
6	Breaza BCR	3,000,000,000	September 2002		NBR reference rate[26]	Data not available	2 years	Data not available
7	Predeal 2 BRD	7,500,000,000	1 November 2002		[(BUBID+BUBOR)/2] +2% 25 % for the 1 st quarter	Quarterly	3 installments 25% on 14 April 2004 35% on 14 April 2005 40% on 14 April 2006	Nominal, Dematerialized, Non-convertible
8	Bacau BCR	35,000,000,000	10 December 2002		[(BUBID+BUBOR)/2] +2% 23 % for the 1 st quarter	Quarterly	5 equal installments 22 May 2003 21 November 2003 21 May 2004 22 November 2004 23 May 2005	Nominal, Dematerialized, Non-convertible

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[24] BUBID is the average deposits interest rate on the Romanian interbanking market.

[25] BUBOR is the average interest rate for loans on the interbanking market

[26] The reference interest rate is published monthly by the NBR in the Official Gazette. NBR started to calculate the interest reference rate only starting 1 February 2002 by issue of Circular No.3 / 1 February 2003 which abrogated Circular No. 11/1998 (regulating the official discount rate) and established the interest reference rate for February 2003 to 34.6% per annum. The reference rate for December 2002 was established by NBR at 20.4% (see NBR Circular No.44 / 2 December 2002).

9	Sebes SIVM Broker	10,000,000,000	13 December 2002		[(BUBID+BUBOR)/2] +2% 23 % for the 1 st quarter	Quarterly	4 equal installments 15 May 2003 17 November 2003 17 May 2004 731 days since the closing of the subscription period	Nominal, Dematerialized, Non-convertible
10	Targu Mures BCR	20,000,000,000	23 December 2002		[(BUBID+BUBOR)/2] +2% 23 % for the 1 st quarter	Quarterly	5 equal installments 29 May 2003 28 November 2003 28 May 2004 29 November 2004 27 May 2005	Nominal, Dematerialized, Non-convertible

CHART 2: INTERNATIONAL ISSUANCE AS 12/02

ISSUER	RATE	TENNURE	AMOUNT
Republic of Romania DM Issue	7.75	06/17/02	DM 600,000,000
Republic of Romania ECU	11	10/06/03	ECU
Republic of Romania	11.5	11/10/05	€ 150,000,000
Republic of Romania	8.50%	12/15/12	
National Bank of Romania	9.75	06/25/99	$ 225,000,000
National Bank of Romania PP	3 mo IBOR + 200 bps	02/15/99	$ 25,000,000
National Bank of Romania PP	3mo libor +225	02/15/01	$ 50,000,000
Termoelectrica	3mo LIBOR +350	12/15/07	€ 200,000,000
Thermoelectrica	3mo LIBOR +275 bbs	02/21/02	$ 100,000,000
SNP Petrom	12.10	09/07/02	€ 125,000,000
Banca Comerciala Romana (BCR)	9.12	03/10/00	$75,000,000
CFR Marfia (National Freight RR)	10.50	5 Years	€ 100,000,000
Termoelectrica Fiduciary Notes	3 mo LIBOR +370	5 Years	€ 120,000,000

PLANNED ISSUES

Adminisistratia Nationala a Drumurilor (AND)	Planned	5 Years	€ 250,000,000
Transelectrica			
Hidroelectrica	Planned	5 Years	€ 150,000,000

Chart 3: Mutual Funds

	30-Nov-02										
	Active Clasic	Act. Dinamic	Active Junior	ARDAF	Armonia	Capital Plus	FCEx	FDI Galati	FON	Fort. Classic	Fort. Gold
No of investors compared	434	709	342	1352	694	9333	520	292	522	20042	527
previous month	100.0%	100.0%	100.0%	99.8%	99.9%	99.9%	99.8%	101.0%	99.2%	99.9%	99.6%
NAV (mil lei) compared to	479	512	936	2016	1284	27534	47332	1158	15272	51078	22622
previous month	98.8%	98.1%	99.4%	97.8%	99.2%	104.0%	101.9%	99.1%	89.0%	99.4%	87.1%
Market share, %	0.1%	0.1%	0.1%	0.2%	0.1%	3.1%	5.4%	0.1%	1.7%	5.8%	2.6%
NAV/unit	37009	104279	3637	103373	281662	44994	351029	67040	243862	1294598	2697078
% compared to prec.month	-1.2%	-1.9%	-0.7%	-1.7%	-0.8%	1.0%	1.4%	-4.3%	-2.9%	-1.7%	4.8%
% in the last 12 months	15.9%	12.6%	14.4%	16.3%	20.7%	37.1%	24.1%	12.3%	26.8%	20.4%	30.5%
% in the last 36 months	100.2%	123.5%	95.9%	84.9%	133.4%	247.6%	172.5%			130.4%	
Structure,											
Cash	6.8%	9.6%	9.9%	2.0%	13.2%	0.2%	1.4%	1.1%	3.0%	0.2%	0.3%
Tbils	90.3%	87.5%	87.9%	0.0%	42.0%	49.3%	66.3%	61.9%	54.9%	72.6%	60.2%
bank deposit	0.0%	0.0%	0.0%	48.9%	11.4%	2.3%	27.7%	0.0%	19.0%	11.2%	39.0%
Bonds	0.0%	0.0%	0.0%	43.4%	11.2%	6.3%	4.5%	0.0%	0.0%	0.0%	0.0%
listed shares	2.9%	2.9%	2.2%	5.7%	22.2%	14.1%	0.0%	37.0%	23.1%	16.0%	0.5%
unlisted shares	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
other assets	0.0%	0.0%	0.0%	0.0%	0.0%	27.6%	0.0%	0.0%	0.0%	0.0%	0.0%
risk coeficient	0.086	0.087	0.066	1.529	1.005	1.964	0.597	1.110	0.882	0.593	0.405
risk cathegory	low	low	low	low	low	low	low	low	low	low	low
cost index	2.583%	3.254%	2.368%	0.070%	0.010%	1.088%	0.610%	0.790%	0.882%	1.132%	0.311%

	INTEGRO	INTERCAPITAL	NAPOCA	PLUS FIDELITY	SIMFONIA1	STABILO	TEZAUR	FMT	FVP	UNOPC (TOTAL)
No of investors compared	10698	336	579	508	5997	281	783	677	558	55184
previous month	99.6%	101.2%	103.0%	99.6%	108.3%	98.9%	102.5%	100.6%	100.7%	100.8%
NAV (mil lei) compared to	51770	10275	12348	11979	449287	10687	4058	122789	31704	875120
previous month	96.6%	96.1%	99.3%	90.5%	100.4%	88.8%	94.6%	102.1%	97.7%	99.4%
Market share, %	5.9%	1.2%	1.4%	1.4%	51.3%	1.2%	0.5%	14.0%	3.6%	
NAV/unit	17558	1358	2136	135282	144713	557546	322294	190000	148883	
% compared to prec.month	-2.9%	-5.4%	-1.8%	1.9%	1.2%	1.2%	1.8%	1.7%	1.5%	0.7%
% in the last 12 months						23.8%	26.3%	33.3%	26.1%	29.2%
% in the last 36 months						0.0%		210.6%		202.2%
Structure,										
Cash	3.3%	1.3%	0.6%	0.3%	0.0%	0.1%	0.0%	0.2%	0.0%	0.5%
Tbils	66.9%	18.3%	20.8%	99.7%	100.0%	99.9%	23.7%	48.9%	93.4%	81.0%
bank deposit	6.2%	2.5%	15.5%	0.0%	0.0%	0.0%	34.6%	21.5%	6.6%	7.7%
Bonds	1.4%	7.1%	0.0%	0.0%	0.0%	0.0%	41.7%	1.6%	0.0%	1.1%
listed shares	22.2%	56.6%	63.0%	0.0%	0.0%	0.0%	0.0%	2.8%	0.0%	5.2%
unlisted shares	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
other assets	0.0%	14.2%	0.0%	0.0%	0.0%	0.0%	0.0%	24.9%	0.0%	4.5%
risk coeficient	0.755	2.574	2.047	0.000	0.000	0.000	1.180	1.575	0.066	0.479
risk cathegory	low	average	0.000	low	low	low	low	low	low	low
cost index	0.922%	0.845%	0.324%	0.391%	0.700%	0.693%	0.141%	0.370%	0.381%	

ANNEX 1: THE ROMANIAN LEASING MARKET

The following data were provided by the National Association of Leasing Companies ("UNSLR") for the Romanian leasing market for the first quarter of 2002:

- The cumulative turnover for the first quarter of 2002 of the leasing companies that are members of UNSLR and reported their financials, amount to ROL 1,785 billion.
- Cumulative paid in capital amounts to ROL 278.7 billion
- Total number of employees: 604
- As of 31 March 2002, the UNSLR members had 19,739 leasing contracts out of which 72.7% were financial leases and 27.2% were operating leases.
- 11.3% of the contracts were concluded with individuals and 88.6% with legal entities
- For the first three months of 2002 contracts were concluded totaling EUR 207.9 million. Financial leases represented EUR 126.1 millions (60.6%) and operating leases represented EUR 81.8 millions (39.3%).
- The total number of clients as of 31 March 2002 was of 12.637 of which 13.1% individuals and 86.8% legal entities.
- The leasing market has grown from - EUR 128 million in 1998, to EUR 202 million in 1999, EUR 340 million- in 2000, EUR 601 million in 2001 and EUR 507 million in the first half of 2002. These figures do not include leasing companies that are not members of UNSLR.

ANNEX 2: ROMANIAN CONSTRUCTION MARKET

In 1998, the market size was approximately $3.3 billion[27] (including housing, railways, roads, and water & sewage treatment). In 2001, it was about $3 billion, and that was estimated to grow by about 7% in 2002. These figures may be affected by the "gray" economy, e.g. companies not declaring actual turnover for tax reasons.

[27] Source: Trade Partners UK is part of British Trade International, the Government body with lead responsibility for fostering business competitiveness by helping UK firms secure overseas sales and investments, and for attracting high quality foreign direct investment to the UK.