

The Pragma Corporation
Access to Credit Initiative
Seventh Quarterly Report
For the Period
July 1, 2006 – September 30, 2006

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

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KIEV, UKRAINE

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A. PROJECT OVERVIEW

I. PROJECT DESCRIPTION

ATCI is tasked with developing the primary and secondary mortgage market with its associated infrastructure; increased capacity for the leasing industry including the development of certified leasing professionals; the ability for municipalities and utilities to use debt instruments to modernize vital infrastructure, and a credit bureau to facilitate the growth of credit for mortgages- and other retail lending. While the credit bureau/credit rating component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation. The preliminary work plan was presented and accepted by USAID in November 2004. A new work plan reflecting any changes in project priority or emphasis will be prepared at the end of the eighth quarter for approval by USAID.

In response to changing requirements for technical assistance, and a changing political landscape, the work plan is being reviewed quarterly for necessary adjustments. The CTO and COP are working closely to coordinate all technical assistance including defining expected outcomes for each planned activity and the results thereof.

ATCI is cooperating with numerous counterparts and may sign formal protocols in addition to those already signed. These Protocols are expected to govern mutual activity as well as manage expectations during the course of the project.

The priorities of the Project for this period are noted by component in the boxes below.

The project update for this quarterly report will correspond to the activities set forth in the action plan described below and reported by component.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- NEW GOVERNING MAJORITY FORMED: ANTI - CRISIS COALITION
- VICTOR YANUKOVYCH IS PICKED AS PRIME MINISTER
- CML COURSE IV IS COMPLETED IN LVIV
- FORMER KAZAKHSTAN MORTGAGE COMPANY HEAD ADVISES SMI
- USAID APPROVES UNDERWRITING THE COST OF UNIA'S CEO CONDITIONED ON PARTICIPATION IN FINAL DECISION
- PRESENTED SLIDE PRESENTATION ON *STRATEGIC AND OPERATIONAL OPTIONS FOR A UKRAINIAN MUNICIPAL FINANCE FACILITY* TO ACTING CONSTRUCTION MINISTER PAVLO KACHUR.

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- DELIVERED PRESENTATIONS ON MUNICIPAL FINANCE FACILITY FOR FIRST DEPUTY MINISTER MAKSIUTA (ECONOMY) AND DEPUTY MINISTER SEMCHUK (CONSTRUCTION).
- MET WITH DEPUTY FINANCE MINISTER YEFIMENKO TO DISCUSS LAW ON LOCAL BORROWING AND MUNICIPAL FINANCE FACILITY.
- OFFERED EXAMS IN ALL 3 COURSES TO 40 CANDIDATES FOR THE CERTIFIED LEASING SPECIALIST CERTIFICATE. 26 PASSED ALL 3 EXAMS AND BECAME ELEGABLE TO RECEIVE THE CERTIFICATE.
- ATCI UNDERTAKES WHITE PAPER ON RATINGS INDUSTRY IN UKRAINE
- COP ATTENDS PFTS (STOCK EXCHANGE) FORUM IN ALUSHTA
- COP BRIEFS AMBASSADOR TAYLOR ON ATCI ACTIVITIES

III. PROJECT EXECUTIVE SUMMARY

This Report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Access to Credit Initiative, as implemented by consultants for The Pragma Corporation (the Project), for the period from July 1, 2006 through September 30, 2006. The report is comprised of four components: Mortgage, Municipal Finance, Leasing and Credit Bureau / Credit Rating. Each component section of the report will have a summary with specific activity tasks identified and the status of each task with appropriate commentary, relevant attachments, and reference to administrative issues, if any.

Mortgage

Primary

ATCI continued its development of the primary mortgage in league with SMI and UNIA completing the second and third CML modules of Course IV. The CML candidates who received the training were from local financial institutions in and around Lvov. 16 candidates received certification. (*See attached photos: attachment 3*) ATCI's CTO, COP and Chairman of the SMI and co-sponsor of CML participated in the certification ceremony. The next regional training will take place in Dnepropetrovsk.

Secondary Market

Covered Bond Regulation Completed

During the quarter under review, ATCI consultant Gennadyi Shemshuchenko completed drafting the mortgage pool monitoring regulations for SSMSC. The regulation will govern the activities of the issuer, the auditor and the bond manager in covered bond issues in accordance with the law "On Mortgage Bonds." The Draft regulation will be submitted to the SSMSC for consideration.

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Pilot Issues

During the quarter under review, ATCI continued to work with Ukrsibbank, Ukrsootsbank and Ukrgazbank on pilot issues under the law “On Mortgage Bonds.” All the banks are prepared to issue, though Ukrsibbank could delay somewhat due to a change in the bank’s operating software.

After three month’s of monitoring, the banks determined that their individual CPR (Consolidated Prepayment Rates) are in the range of 21 to 26 percent per annum; by comparison, current CPR in the US are about 10.5-11.0 percent. The elevated CPR suggests that the auditor’s agreed-upon procedure should be performed quarterly, as opposed to every six months or even once a year, the mandated minimum in the law.

Bond Manager and Management Agreement

With registration of the pertinent regulation imminent, ATCI has mounted an effort to identify banks which might act as bond managers. During the quarter under review, ATCI met with HVB for general discussions of the role and responsibilities of bond manager. The meetings were only exploratory in nature, but HVB has not excluded the possibility of taking an interest.

Since neither the law nor the regulation define the relationship between the issuer and the bond manager in sufficient detail, ATCI will probably have to draft a Management Agreement. Ideally, the agreement would be tripartite, encompassing the activities and relationships with the auditor as well.

Associated Market Infrastructure

ATCI’s third direction of activity in mortgage is development of associated market infrastructure. During the previous quarter, ATCI in cooperation with the International Real Property Foundation, conducted an assessment of real estate sales practices and the state of real estate appraisal in Ukraine. IRPF submitted its report along with a suggested solution package. This, in turn, evolved into a proposed SOW that would lead to certifications in accordance with world standards of practice. This SOW was approved by USAID on a cost share basis with the IRPF during the quarter. ATCI expects the IRPF and expects to begin delivery of Phase I in the ninth quarter.

Lastly, the Peoples Group commenced its assessment of lending in the agricultural sector. ATCI is providing support for this effort and expects it to be completed during the ninth quarter and during which time it present TPG’s findings, conclusions, and recommendations to USAID.

Municipal Finance

Pilot Bond Issues

The city of Lugansk (population 489,000) decided to collaborate with ATCI on its first municipal bond, targeted to be UAH 30 million. ATCI collected data for our bond capacity assessment and completed most of the analysis during the quarter. ATCI concluded a contract with Moody’s for completion of a credit rating for Berdyansk - ATCI’s other pilot bond issue city.

MFF

Development of a municipal finance facility (bond bank) continued during the quarter. ATCI made a detailed presentation of strategic options to Acting Minister of Construction Pavlo Kachur in late July. Minister Kachur left the government when the present government finally formed in August 2006.

With USAID's assistance, ATCI began to organize meetings with senior officials of the new government in an effort to maintain momentum for creation of a municipal finance facility. First Deputy Minister of Economy, Mr. Anatoly Maksiuta, received a detailed briefing on September 13 and expressed strong support. Likewise, Deputy Construction Minister G. Semchuk spent more than two hours discussing the concept on September 25.

Leasing

In this quarter, ATCI completed the establishment of the Certified Leasing Specialist (CLS) Program, continued capacity building work with a number of lessors through advisory services, and facilitated additional advisory services through its assistance with 2 CNFA volunteers. ATCI also continued to work with relevant parties to improve the legal and tax environment for the development of Ukraine's leasing industry.

ATCI's Leasing Component completed 3 training sessions in July, August and September, covering Courses 1, 2 & 3. Exams were administered for each Course after each training session was completed. 40 individuals took all 3 exams, of which 26 passed all 3 and were eligible to receive the certificates of Certified Leasing Specialist. Of the 26 successful candidates, 4 were from the IFC Leasing Project, 11 were from the Leasing Industry including several top managers of Ukrainian Lessors, and 11 were from related industries including those who will be serving as trainers in future training sessions. Certificates are scheduled to be awarded in the Quarter ending December 31, 2006.

Credit Bureau/Credit Rating

Credit Bureau

During the quarter, ATCI's focused in two basic areas: a) overall coordination of the market given the likelihood of data fragmentation and b) drafting regulations. Moreover, ATCI further helped to consolidate the interests of commercial banks to fund a private credit bureau, and to deepen the market's awareness of a credit bureau's role in risk and portfolio management.

ATCI/USAID co-sponsored and actively participated in the international credit bureau conference held in Kyiv at the end of September 2006. The main objectives of the conference were to discuss the important role credit reporting and credit scoring play in modern risk management and to discuss what constitutes an enabling regulatory environment for the efficient running of credit bureaus. The conference also aimed at establishing cross-country networks to share experiences and provide a forum to promote regional cooperation. The conference was attended by 250 participants that included representatives of the CB community from Ukraine, Russia, Georgia and Kazakhstan, officials from Moldova, senior managers from Experian and CreditInfo, bankers, representatives from Ukrainian financial and non-financial sector, as well as journalists and government officials. The conference participants in panels and during presentations discussed the implications of the new legislation for the operations of credit

bureaus and lenders as well as the experience of successful credit bureau operations in the region.

ATCI conducted two practical workshops for the Ministry of Justice specialists. The workshops were educational in nature, structured in the form of discussion followed by questions and answers; and covered issues related to both the practical aspects of CB operations and international experience with effective CB regulation. Separately, the Ministry of Justice requested ATCI to prepare materials for them and advise on two specific sets of regulations: a) Regulation governing the Unified Registry, and b) Inspection of Credit Bureaus. During the period under review FN BCH, Creditinfo, and MOJ focused their efforts on the regulation governing the Unified Registry of Credit Bureaus and the preliminary draft of this regulation was developed. Further polishing of this document will depend on the status of the Licensing Regulation. More detailed work with respect to all three regulations is expected to continue in the 4th quarter of 2006 and 1st quarter of 2007. Considering the complex nature of this task, its successful completion will significantly depend on the degree of cooperation and input from all interested parties.

Credit Rating

During the quarter, the SSMSC adopted the Resolution “On Approving the Procedure for Keeping the State Registry of Authorized Rating Agencies and Issuing the Certificate on Inclusion to the State Registry of Authorized Rating Agencies (dated June 23 2006, # 444. It was registered by the Ministry of Justice as of July 12, 2006, #823/12697). This resolution seemed basically harmless and by logic was necessary to keep the registry of authorized rating agencies. Logic also dictates that any rating agency can be included in this registry only after it has been granted the status of authorized rating agency based on the tender (which was postponed). However, shortly after the adoption of this Resolution, the SSMSC included “Credit-Rating” into the registry of authorized rating agencies without any tender. These actions of the SSMSC also provoked very harsh criticism on the part of the market.

In August, the SSMSC issued the Draft Resolution “*On Approving the Rules for Assigning Ratings under the National Scale by the Authorized Rating Agencies*”. A brief overview of this Draft Resolution is attached as an Appendix to this Report.

In addition, the SSMSC adopted the Resolution “*On approving the Procedure for Submission of Information to SSMSC by Authorized Rating Agencies*” dated September 19, 2006, #855. This Resolution specifies information disclosure requirements for authorized rating agencies and is expected to be registered by the Ministry of Justice in October.

In light of these developments and in order to promote the development of an effective and competitive credit rating industry in Ukraine; and in response to the SSMSC’s request to ATCI to produce such a paper, ATCI engaged Michael McMullen, an international credit ratings expert, to prepare a White Paper on the status of the ratings industry in Ukraine, as well as recommendations for improving market conditions. Mr. McMullen, who has over 20 years experience with MOODY’S INVESTORS SERVICE, and who participated in assignments and projects for banks, financial institutions, and NGO, such as USAID, World Bank, Thomson BankWatch in more than 20 countries around the world, conducted a series of meetings with market participants, regulators and other interested parties to gather hands-on information required for preparation of the White Paper. Final drafting and dissemination of the White Paper is expected in the 4th quarter 2006. Of special concern is the mandatory requirement for ratings

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in accordance with a national scale developed by the GOU that must be used by certain institutions and all domestic ratings agencies which the paper will address.

Gender

During the quarter, ATCI conducted training activities in two of its four major components while striving for gender balance.

ATCI conducted CML mortgage training for sixteen bank staff persons - four of whom were women.

Other

In September, the COP attended the PFTS (stock exchange) annual meeting in Alushta, Crimea. The agenda (*see attachment 1*) covered a variety of issues related to equity trade and issues related to bolstering fixed-income trade. It also provided an opportunity to meet industry executives in one place and discuss ways to cooperate to further ATCI objectives.

ATCI's COP briefed Ambassador Bill Taylor, newly assigned to Ukraine (*see attachment 2*) and USAID Regional Mission Director Earl Gast on project activities. The briefing session included questions and answers.

IV. PROJECT STAFFING

The following personnel were engaged in project activities this quarter:

- David Lucterhand, Chief of Party
- Richard Genz, Senior Advisor, Municipal
- Richard Caproni, Senior Advisor, Leasing
- Steve Moody, Senior Advisor, Mortgage
- Jim Butler, Senior Advisor, Mortgage
- Arthur Heath, Senior Advisor, Municipal
- Javier Piedra, Senior Advisor, Credit Bureau
- Maiko Sagyndykova, former Head of Kazakhstan Mortgage Company
- Bob Teichman, Senior Advisor, Leasing

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- Jon Michael McMullen, Senior Advisor, Credit Rating
- Ken Peoples, Senior Advisor, Mortgage
- Frank Naylor, Senior Advisor, Mortgage

V. ADMINISTRATIVE ISSUES

Senior Advisor for leasing Rich Caproni resigned to pursue private opportunities in Ukraine. ATCI and USAID are discussing whether to replace the position with a full time senior advisor or use short-term advisors on an as needed basis.

During the quarter, ATCI experienced several resignations of local staff in technical positions and support. All cited higher salary elsewhere as their main reason for resigning. The COP has requested that ATCI increase salaries approximately 15% and in special cases, significantly higher for some technical positions. A memorandum to the CO with justification for the request is being prepared by Pragma, Falls Church.

LIST OF ATTACHMENTS

ATTACHMENT 1. Agenda for PFTS international forum of Capital Market Participants in Alushta, September 14-17, 2006

ATTACHMENT 2. Presentation for Ambassador Taylor and USAID Mission Director Earl Gast, August 2, 2006

B. MORTGAGE

I. COMPONENT DESCRIPTION

This Report provides details on the events and activities relating to the Mortgage Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from July 1 through September 30, 2006.

The primary purpose of the ATCI is to develop the primary and secondary mortgage market with its associated infrastructure. Primary market development involves legal review and addressing legislative deficiencies, the use of standardized documentation for underwriting and loan servicing, certification of personnel for mortgage lenders that results in a CML designation; technical assistance to financial institutions engaged in mortgage lending, and assessment of titling and all related processes. Development of the secondary market involves assistance to the newly formed state Mortgage Institution to become operational, development of national mortgage insurance as well as private, term life, and the structuring of mortgage-backed bonds with the appropriate legal environment for issuance. Associated market infrastructure involves appraisers, registration centers, real estate sales practitioners, and appropriate regulation.

While the credit bureau component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation.

II. SIGNIFICANT EVENTS

- CML COURSE IV IS COMPLETED IN LVIV. SIXTEEN PERSONS ARE CERTIFIED.
- COVERED BOND IMPLEMENTING REGULATIONS COMPLETED AND SUBMITTED TO SSMSC
- FORMER KAZAKHSTAN MORTGAGE COMPANY HEAD ADVISES SMI
- USAID APPROVES UNDERWRITING THE COST OF UNIA'S CEO CONDITIONED ON PARTICIPATION IN FINAL DECISION
- THE PEOPLES GROUP BEGINS ASSESSMENT OF MORTGAGE RURAL LENDING IN UKRAINE

III. EXECUTIVE SUMMARY

ATCI continued its development of the primary mortgage in league with SMI and UNIA completing the second and third CML modules of Course IV. The CML candidates who received the training were from local financial institutions in and around Lvov. 16 candidates received certification. (*See attached photos: attachment 3*) ATCI's CTO, COP and Chairman of the SMI and co-sponsor of CML participated in the certification ceremony. The next regional training will take place in Dnepropetrovsk.

Cooperation continued with ATCI's counterpart UNIA to develop mortgage market statistics for the UNIA with an ATCI employee seconded to UNIA staff. This effort contributed to UNIA's publication of the Overview on the Mortgage Market in Ukraine Mortgage for the second quarter (*See attachment 4*) and joint work to draft implementing regulations for submission to the SSMSC re: the mortgage covered bond law.

Secondary Mortgage Market

State Mortgage Institution (SMI)

First Deputy Minister of Economy asked during an ATCI briefing on the Municipal Finance Facility for an update on SMI readiness to manage a state guarantee for one billion UAH if approved by the GOU. This request was made in his capacity as chairman of SMI's supervisory board. In response, the COP wrote a memorandum (*see attachment 5*) that included the report of Maiko Sagyndykova, former Chairman of the Kazakhstan Mortgage Company who consulted to SMI during the quarter at the request of SMI management.

Covered Bond Regulation Completed

During the quarter under review, ATCI consultant Gennadyi Shemshushenko completed drafting the mortgage pool monitoring regulations for SSMSC. The regulation will govern the activities of the issuer, the auditor and the bond manager in covered bond issues in accordance with the law "On Mortgage Bonds."

The regulation maintains the limitations on mortgage pool formation set forth in the law: the LTV of loans in the mortgage pool shall be no greater than 75%; no more than 15% of loans in the mortgage pool may be commercial real estate mortgages; and mortgages—both retail and commercial—must comprise at least 75% of the mortgage pool's assets. The mortgage pool itself must be at least 110% of the face value of the issue. (*See Attachment 6: Issuer's Report.*)

The regulation provides greater detail on the activities of the auditor. The law requires the auditor to conduct a periodic "review" of the mortgage pool; the regulation further stipulates that the "review" shall, in fact, be an "agreed-upon procedure," intended to confirm the issuer's own analysis of the mortgage pool. The regulation allows auditors to use their own in-house sampling methodology to construct a mortgage pool sample for periodic analysis.

Likewise, the regulation divides the duties of the bond manager into the routine and the extraordinary and clearly defines them. (*See Attachment 7: Bond Manager.*)

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After review by the Commission, the regulation will be posted on the Commission's web site for comment by the public during a thirty-day period.

Pilot Issues

During the quarter under review, ATCI continued to work with Ukrsibbank, Ukrsotsbank and Ukrgazbank on pilot issues under the law "On Mortgage Bonds." All the banks are prepared to issue, though Ukrsibbank could delay somewhat due to a change in the bank's operating software.

After three month's of monitoring, the banks determined that their individual CPR (Consolidated Prepayment Rates) are in the range of 21 to 26 percent per annum; by comparison, current CPR in the US are about 10.5-11.0 percent. The elevated CPR suggests that the auditor's agreed-upon procedure should be performed quarterly, as opposed to every six months or even once a year, the mandated minimum in the law.

Elevated CPR dramatically shortens the duration of the mortgage pool—in the current case, to less than 40 months, which means that none of the pilot issues should have a term longer than three years. A three-year term means that coupon yields on the pilot issues should be in the 10.0-11.0 % range, or about at the level of deposit rates.

The timing of issuance of pilot issues will depend on if and when MinJust registers the regulation as it has been presented to the Commission.

Bond Manager and Management Agreement

With registration of the pertinent regulation imminent, ATCI has mounted an effort to identify banks which might act as bond managers. The issue is not as straightforward as it might seem.

First, the law says that the bond manager may be any legal entity and does not specify banks specifically. The use of a bank as bond manager, however, is strongly recommended by the structure of its duties which, in the case of issuer bankruptcy, might include managing the issuer's mortgage portfolio as a "bridge bank," pending liquidation. However, if banks are to serve as bond managers, issuers have made it clear that they will not cooperate with "competitor" banks, meaning banks in the mortgage lending business. Banks in Ukraine not engaged in the mortgage lending business are few and, for the most part, foreign. Thus, ATCI's energies have focused on two banks—ING Bank and HVB. During the quarter under review, ATCI met with HVB for general discussions of the role and responsibilities of bond manager. The meetings were only exploratory in nature, but HVB has not excluded the possibility of taking an interest.

Since neither the law nor the regulation define the relationship between the issuer and the bond manager in sufficient detail, ATCI will probably have to draft a Management Agreement. Ideally, the agreement would be tripartite, encompassing the activities and relationships with the auditor as well.

Associated Market Infrastructure

ATCI's third direction of activity in mortgage is development of associated market infrastructure. During the previous quarter, ATCI in cooperation with the International Real Property

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Foundation, conducted an assessment of real estate sales practices and the state of real estate appraisal in Ukraine. IRPF submitted its report along with a suggested solution package. This, in turn, evolved into a proposed SOW that would lead to certifications in accordance with world standards of practice. This SOW was approved by USAID on a cost share basis with the IRPF during the quarter. ATCI expects the IRPF and expects to begin delivery of Phase I in the ninth quarter.

Lastly, the Peoples Group commenced its assessment of lending in the agricultural sector. ATCI is providing support for this effort and expects it to be completed during the ninth quarter and during which time it present TPG's findings, conclusions, and recommendations to USAID.

IV. ADMINISTRATIVE ISSUES

UNIA's Executive Director has been serving in this capacity without a specific salary for nearly two years. ATCI discussed with UNIA's Chairman Mr. Yushko ways to remedy this problem. One solution was for ATCI to fund the position but conditioned on the basis of having an open and competitive executive search and through ATCI's participation on the search committee. This approach was discussed with and approved by ATCI's CTO. Mr. Yushko thanked ATCI for this offer and asked that the project delay advertising for the position until the beginning of 2007.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Mortgage - Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• IUE review of training materials for applicability to Ukraine	<ul style="list-style-type: none">• WORK COMPLETED IN COOPERATION WITH THE UNIA AND SMI TO REVISE CML COURSEWORK FOR DELIVERY IN UKRAINE IN 2005. NEW MATERIAL IS INTRODUCED CONTINUALLY IN RESPONSE TO CHANGING MARKET CONDITIONS.
<ul style="list-style-type: none">• Selection of candidates for CML training	<ul style="list-style-type: none">• IN COOPERATION WITH UNIA AND SMI, ATCI SELECTS THE BANKS AND OTHER INSTITUTIONS FOR STAFF TRAINING. FIRST REGIONAL CML (COURSE IV) TRAINING IS COMPLETED IN LIVOV.
<ul style="list-style-type: none">• Develop and administer CML training	<ul style="list-style-type: none">• COURSE MODIFICATION FOR DELIVERY IN UKRAINE IS COMPLETED AND BEING DELIVERED.
<ul style="list-style-type: none">• Deliver two complete CML courses	<ul style="list-style-type: none">• DURING THE QUARTER, CML MODULES FOR COURSE IV WERE DELIVERED. SIXTEEN PERSONS RECEIVED CERTIFICATIONS.
<ul style="list-style-type: none">• Assess rural lending, titling registration, appraisal of profitable agricultural production units	<ul style="list-style-type: none">• THIS ACTIVITY COMMENCED DURING THE QUARTER.

Task 2. Mortgage - Assistance to Banks

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Standardize rules and procedures for retail mortgage lending 	<ul style="list-style-type: none"> • THE MORTGAGE BOND LAW LEGISLATES THE COVERAGE RATIOS AND LTVS FOR INCLUSION IN COVERED BONDS. ADDITIONALLY, INVESTORS HAVE RECOURSE TO THE ISSUER IF MORTGAGES BECOME NON-PERFORMING. ONLY MORTGAGES THAT USE STANDARDIZED UNDERWRITING PRACTICES WILL BE PRACTICABLE FOR COVERED BONDS. THIS, IN TURN, WILL AIDE IN FURTHER STANDARDIZATION. BANKS ARE USING STANDARDIZED UNDERWRITING PRACTICES IN PREPARATION FOR PILOT ISSUES.
<ul style="list-style-type: none"> • Select candidate banks for receipt of on –site technical assistance 	<ul style="list-style-type: none"> • THE SAME BANKS THAT HAVE STAFF PARTICIPATE IN CML TRAINING ARE THE SAME WHO RECEIVE ON SITE TECHNICAL ASSISTANCE.
<ul style="list-style-type: none"> • Provide on – site technical assistance 	<ul style="list-style-type: none"> • PROVIDED TO BANKS (UPON REQUEST) WHOSE STAFF HAVE ACHIEVED CML DESIGNATION.

Task 3. Mortgage - Home Loan Guarantee

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Analyze market for existing mortgage insurance practices 	<ul style="list-style-type: none"> • THIS ANALYSIS WAS COMPLETED DURING THE FOURTH QUARTER.
<ul style="list-style-type: none"> • Assess legal and regulatory framework 	<ul style="list-style-type: none"> • ASSESSMENT IS CONTINGENT ON ATCI IDENTIFYING A SPONSOR .FOR THE GUARANTEE FUND INSIDE THE GOU.
<ul style="list-style-type: none"> • Complete Feasibility Study 	<ul style="list-style-type: none"> • THIS WILL COMMENCE AFTER COMPLETION OF THE ASSESSMENT AND THE SPONSOR AGREES TO PROCEED
<ul style="list-style-type: none"> • Complete Business Plan 	<ul style="list-style-type: none"> • THIS WILL FOLLOW THE FEASIBILITY STUDY
<ul style="list-style-type: none"> • Assist in operational set-up of guarantee facility 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> • Provide on-site technical assistance to facility 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> • Promote the use of mortgage insurance 	<ul style="list-style-type: none"> • ATCI IS LOOKING TO IDENTIFY A SPONSOR TO DISCUSS THE ROLE OF A STATE MORTGAGE GUARANTEE FUND. UNTIL SUCH TIME, PURSUIT OF THIS EFFORT WILL BE MINIMAL.

Task 4. Mortgage - Life Insurance Products

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Analyze insurance and mortgage markets for existing products 	<ul style="list-style-type: none"> ATCI COMPLETED AN ANALYSIS OF RELATED MORTGAGE INSURANCE PRODUCTS AS WELL AS THE INSTITUTIONS OFFERING THEM. SEVERAL COMPANIES ARE OFFERING MORTGAGE TERM-LIFE INSURANCE PRODUCTS. HOWEVER, THE ANALYSIS DETERMINED THAT BANKS ARE NOT REQUIRING THESE POLICIES BECAUSE THEY ADD TO THE COST OF THE MORTGAGE. FURTHER, MUCH OF THE "LIFE" INSURANCE IS RELATED TO ONLY ACCIDENTAL DEATH. ALSO, TERM PREMIUMS APPEAR EXCESSIVE DUE TO THE ABSENCE OF COMPETITION. ATCI EXPECTS TO HAVE AN ASSESSMENT BY AN ACTUARY COMPLETED DURING THE TENTH QUARTER.
<ul style="list-style-type: none"> Assess legal and regulatory framework 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Assess existing actuarial data 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Select candidate insurers 	<ul style="list-style-type: none"> PRELIMINARY ANALYSIS HAS BEEN COMPLETED/ASSESSMENT WILL TAKE PLACE DURING THE TENTH QUARTER.
<ul style="list-style-type: none"> Develop term sheet and rate structure 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Draft Product policy 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Conduct Road Show with mortgage lending banks and financial institutions 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER

Task 5. Mortgage - Appraisers/Brokers Associations

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Assessment of UTO and other organizations 	<ul style="list-style-type: none"> ASSESSMENT COMPLETED BY IRPF AND SOLUTION PACKAGE OFFERED. SOW WAS APPROVED DURING THE QUARTER. PHASE I WILL COMMENCE DURING THE NINTH QUARTER.
<ul style="list-style-type: none"> Facilitate development and use of unified methodology 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Work with UAREP 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Study tours to U.S. 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Design, establish and sustain the transaction and price database 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER

Task 6. Mortgage - Mortgage Backed Securities

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Establish Legal Working Group to assess legal and regulatory basis 	<ul style="list-style-type: none"> • ATCI IS PARTICIPATING WITH UNIA AND THE SSMSC IN DRAFTING THE IMPLEMENTING RULES AND REGULATIONS. SUBMISSION OF THE DRAFT RULES TO THE SSMSC WILL OCCUR DURING THE NINTH QUARTER.
<ul style="list-style-type: none"> • Select Candidate Issuer 	<ul style="list-style-type: none"> • ATCI IS WORKING WITH UKRAGASBANK, UKRASOTSBANK, AND UKRASIBBANK. .MOST PORTFOLIOS ARE DOLLAR DENOMINATED. MORTGAGES DENOMINATED IN LOCAL CURENCY ARE IMPORTANT TO MITIGATE CURRENCY RISK IN DOMESTIC ISSUANCE. THIS IS NOT THE CASE FOR INTERNATIONAL ISSUANCE. LETTERS OF CONFIDENTIALITY HAVE BEEN SIGNED BY EACH BANK. CURRENT ACTIVITY INVOLVES PORTFOLIO ANALYSIS TO DETERIMINE THE QUALITY OF MORTGAGE COLLATERAL, DENOMINATION OF THE MORTGAGES SELECTED FOR INCLUSION IN THE POOL AND SUITABILITY FOR ISSUANCE; AND DEVELOPMENT OF STANDARDIZED MECHANISMS FOR AUDITING THE COVERAGE OF THE MORTGAGE POOL. EQUALLY IMPORTANT IS TO DETERMINE THE STATE OF SOFTWARE DEVELOPMENT THAT CAN GENERATE THE NECESSARY REPORTS THAT COMPLY WITH LEGAL REQUIREMENTS AS WELL AS THE REQUIREMENTS OF THE BOND MANAGER.
<ul style="list-style-type: none"> • Draft investment memorandum 	<ul style="list-style-type: none"> • DRAFTING IS PREDICATED ON COMPLETION OF THE IMPLEMENTING RULES AND REGULATIONS. THIS SHOULD OCCUR TOWARDS THE END OF THE NINTH QUARTER.
<ul style="list-style-type: none"> • Identify potential investors 	<ul style="list-style-type: none"> • THE COP AND ADVISORS HAVE MET WITH POTENTIAL INSTITUTIONAL INVESTORS TO DESCRIBE COVERED BONDS AND TO GAGE INVESTMENT INTEREST. LIFE INSURANCE COMPANIES AND ASSET MANAGERS OF PRIVATE PENSION FUNDS APPEAR TO BE LIKELY INVESTORS BASED ON THE SIZE OF THE FIRST PILOT. ALSO BANKS ARE LIKELY BUYERS FOR PORTFOLIO DIVERSIFICATION. PFTS IS THE LIKELY MECHANISM FOR DISTRIBUTION. • SMI HAS INVESTED MOST OF ITS CHARTER CAPITAL IN SOME WHOLE MORTGAGES. A STATE GUARANTEE (EVEN PARTIAL) WOULD CONSTITUTE A CREDIT ENHANCEMENT. NEARLY ALL OF SMI'S EFFORTS HAVE BEEN DEDICATED TO PROCURING A STATE GUARANTEE. STEP ONE WOULD INVOLVE THE ISSUANCE CORPORATE BONDS MOST PROBABLY PLACED WITH INTERNATIONAL DEPENDING ON THE SIZE OF THE ISSUE AND TERMS OF THE STATE GUARANTEE. BASED ON THE TEMPO OF CREDITING, ATCI EXPECTS TO SEE A COVERED BOND PILOT ISSUANCE SOMETIME IN THE SECOND HALF OF 2007. THIS ASSUMES THAT REGULATORY FIXES BY THE SSMSC TO DEFICIENCIES IN THE COVERED BOND LAW CAN BE ACHIEVED IN TIME.
<ul style="list-style-type: none"> • Price and Place Issue 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER

LIST OF ATTACHMENTS

ATTACHMENT 3. Photograph of LVIV CML Recipients

ATTACHMENT 4. Overview of mortgage market in Ukraine

ATTACHMENT 5. Maksyuta SMI Memo

ATTACHMENT 6. Mortgage Issuer's Report

ATTACHMENT 7. Bond Manager Agreement

C. MUNICIPAL FINANCE

I. COMPONENT DESCRIPTION

This Report provides details on the events and activities relating to the Municipal Finance Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from July 1 through September 30, 2006.

The municipal finance program of the Access to Credit Initiative helps cities and communal service enterprises issue long-term bonds for essential infrastructure. The program is also in train to promote the development of a municipal finance facility in Ukraine.

Technical assistance from the program's team of Ukrainian and international experts in finance, accounting, and law will enable at least three municipalities or communal enterprises to issue bonds. The pilot bonds will demonstrate practices that creditworthy issuers employ to win investor confidence, such as transparent accounts, full disclosure, and financing capital projects that "pay for themselves" with cost savings.

Pilot bonds will disclose legal and regulatory obstacles to bond issuance. The bond program will develop solutions and advocate for their enactment. Legal goals include promotion of stable, predictable central government transfers to municipalities, greater fiscal autonomy for cities, and full-cost recovery tariffs for utility companies.

Key counterpart organizations supporting the bond program are the Association of Ukrainian Cities and the Ministry of Construction, Architecture and Housing and Communal Economy.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- PRESENTED SLIDE PRESENTATION ON *STRATEGIC AND OPERATIONAL OPTIONS FOR A UKRAINIAN MUNICIPAL FINANCE FACILITY* TO ACTING CONSTRUCTION MINISTER PAVLO KACHUR.
- DELIVERED PRESENTATIONS ON MUNICIPAL FINANCE FACILITY FOR FIRST DEPUTY MINISTER MAKSIUTA (ECONOMY) AND DEPUTY MINISTER SEMCHUK (CONSTRUCTION).
- PARTICIPATED IN FOUR MEETINGS OF MINISTRY OF FINANCE'S WORKING GROUP DRAFTING THE LAW ON LOCAL BORROWINGS.
- MET WITH DEPUTY FINANCE MINISTER YEFIMENKO TO DISCUSS LAW ON LOCAL BORROWING AND MUNICIPAL FINANCE FACILITY.
- BEGAN WORKING WITH THE CITY OF LUGANSK ON BOND ISSUANCE.
- MOODY'S BEGAN CREDIT RATING OF BERDYANSK.

III. EXECUTIVE SUMMARY

Development of a municipal finance facility (bond bank) continued during the quarter. ATCI made a detailed presentation of strategic options to Acting Minister of Construction Pavlo Kachur in late July (*see attachment 8*). Minister Kachur left the government when the present government finally formed in August 2006.

With USAID's assistance, ATCI began to organize meetings with senior officials of the new government in an effort to maintain momentum for creation of a municipal finance facility. First Deputy Minister of Economy, Mr. Anatoly Maksiuta, received a detailed briefing on September 13 (*see attachment 9*) and expressed strong support. Likewise, Deputy Construction Minister G. Semchuk spent more than two hours discussing the concept on September 25.

ATCI concluded a contract with Moody's for completion of a credit rating of the City of Berdyansk.

The city of Lugansk (population 489,000) decided to collaborate with ATCI on its first municipal bond, targeted to be UAH 30 million. ATCI collected data for our bond capacity assessment and completed most of the analysis during the quarter.

ATCI participated in four meetings of the Ministry of Finance's working group on the proposed Law on Local Borrowings and Local Guarantees, chaired by Deputy Minister of Finance Yefimenko. USAID's Access to Credit Initiative was the only donor organization present at the meetings. We provided Deputy Minister Yefimenko, chair of the group, with our legal recommendations for establishing a municipal finance facility, including proposals to improve the legal framework for local borrowing.

Plan of Action

1. Present the Municipal Finance Facility concept to key officials in the new government.
2. Identify a senior official who can serve as champion to promote establishment of a municipal finance facility.
3. Prepare Berdyansk's application to MinFin for borrowing approval. Continue to press for Ministry of Finance resolution of the "expert opinion" problem on credit rating agencies.
4. Execute contract for City of Lugansk credit rating to be paid by ATCI/USAID.
5. Continue participation in Ministry of Finance working group drafting Law on Local Borrowing and Local Guarantees.

IV. ADMINISTRATIVE ISSUES

Stepan Makovyak, an Advisor focusing on municipal finance, left the project in August for substantially more salary. ATCI will recruit a new Advisor during the next quarter.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Municipal Finance – Constraints to Bond issuance

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> • Monitor GOU intergov't finance practices for credit risks 	<p>COLLABORATED WITH WORLD BANK CONSULTANT ON EVALUATION OF INTERGOVERNMENTAL FINANCE SYSTEM AS FOUNDATION FOR LOCAL BORROWING.</p>
<ul style="list-style-type: none"> • Participate in Drafting on Law on Local Borrowing 	<p>PARTICIPATED IN FOUR MEETINGS OF THE MINISTRY OF FINANCE WORKING GROUP TO DRAFT A LAW ON LOCAL BORROWINGS AND LOCAL GUARANTEES.</p> <p>COLLABORATED WITH WORLD BANK CONSULTANT ON EVALUATION OF LEGAL FRAMEWORK FOR LOCAL BORROWING.</p>

Task 2. Municipal Finance – Prepare for a Pilot Issue

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> • Initiation of pilot 	<p>MET WITH LUGANSK DEPUTY MAYOR MIKHAILENKO TO DISCUSS PILOT BOND ISSUANCE. CITY DECIDED TO COLLABORATE WITH ATCI. WE GATHERED DATA FOR BOND CAPACITY ASSESSMENT AND PREPARED PROTOCOL OF INTENTION.</p> <p>AGREED TO ASSIST IVANO-FRANKIVSK TEPLOCOMMUNERGO (HEAT COMPANY) ON LONG-TERM PLAN FOR BOND ISSUANCE, BASED ON THE COMPANY'S COST-INDEXED TARIFF.</p>

Task 3. Municipal Finance – Issuance and Municipal Finance Facility Development

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Implementation 	<p>PRESENTATION OF STRATEGIC AND OPERATIONAL OPTIONS FOR CREATING MFF, FOR FORMER MINISTER PAVLO KACHUR, MINISTRY OF CONSTRUCTION, ARCHITECTURE AND HOUSING AND COMMUNAL ECONOMY REGARDING GOVERNMENT SUPPORT FOR ESTABLISHMENT OF A MUNICIPAL FINANCE FACILITY (MFF).</p> <p>PRESENTATIONS FOR FIRST DEPUTY MINISTER MAKSIUTA (ECONOMY) AND DEPUTY MINISTER SEMCHUK (CONSTRUCTION) REGARDING MUNICIPAL FINANCE FACILITY.</p>

Task 4. Municipal Issuance – Legislation and Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Workshops and public education	TWO PRESENTATIONS TO ASSOCIATION OF UKRAINIAN CITIES MAYOR’S CONFERENCE. 1) REGARDING MUNICIPAL FINANCE FACILITY AND 2) REGARDING LEGAL FRAMEWORK FOR LOCAL BORROWING. PRESENTATION ON LOCAL BORROWING TO MUNICIPAL DEVELOPMENT INSTITUTE’S INVESTMENT FAIR FOR COMMUNAL SERVICE ENTERPRISES. .

LIST OF ATTACHMENTS

ATTACHMENT 8. Presentation for (former) Minister of Construction Pavlo Kachur on Strategic and Operational Options for Creating a Municipal Finance Facility by Richard Genz, July 21, 2006.

ATTACHMENT 9. Presentation for First Deputy Minister (Economy) Maksiuta on Municipal Finance Facility, September 13, 2006.

D. LEASING

I. COMPONENT DESCRIPTION

This report details events and activities relating to the Leasing Component of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from July 1 through September 30, 2006.

The primary purpose of the Leasing Component is not only to create a supportive environment for modern financial leasing but to provide specific technical, advisory, and training assistance in order to increase access to credit throughout Ukraine. Leasing is an efficient alternative to bank credit for financing acquisition of fixed assets.

ATCI will aim to strengthen existing leasing companies. Capacity building will consist of training and consulting for lessors, lessees, farmers, regulators, and other interested parties, such as vendors and banks. In addition, ATCI will seek potential foreign and local investors as well as conduct public awareness efforts.

Moreover, the Leasing Component will develop the cadre of leasing professionals by introducing the Certified Leasing Specialist Program (CLS), a designation for market participants so that they may attain world standards of practice.

ATCI will continue to promote reform of the legislative and regulatory framework for leasing to facilitate industry development and entry of foreign capital into the market.

II. SIGNIFICANT EVENTS

- OFFERED A FIVE-DAY TRAIN-THE-TRAINERS FOR POTENTIAL INSTRUCTORS OF THE CLS PROGRAM.
- OFFERED EXAMS IN ALL 3 COURSES TO 40 CANDIDATES FOR THE CERTIFIED LEASING SPECIALIST CERTIFICATE. 26 PASSED ALL 3 EXAMS AND BECAME ELEGABLE TO RECEIVE THE CERTIFICATE.
- ASSISTED LEASEIT IN OBTAINING 2 ADDITIONAL SOURCES OF DEBT CAPITAL - NECESSARY TO FUND THEIR LEASES OF SMALL IT EQUIPMENT.
- ATCI CONTINUED TO WORK WITH REIFEISSEN/AVAL LEASING (AUSTRIA) AND ELEMENT LEASING (RUSSIA) IN THEIR PLANS TO EXPAND INTO THE UKRAINE MARKET.
- WITH THE ASSISTANCE OF ATCI, THE CITIZENS NETWORK FOR FOREIGN AFFAIRS ("CNFA") HOSTED TWO VOLUNTEERS, COVERING MARKETING AND DEVELOPMENT FOR LEASING PROFESSIONALS (BOB LEVER) AND STRATEGIC PLANNING (STEVE RICHARDS)

III. EXECUTIVE SUMMARY

In this quarter, ATCI completed the establishment of the Certified Leasing Specialist (CLS) Program, continued capacity building work with a number of lessors through advisory services, and facilitated additional advisory services through its assistance with 2 CNFA volunteers. ATCI also continued to work with relevant parties to improve the legal and tax environment for the development of Ukraine's leasing industry.

As part of the completion of the CLS Program, in early July ATCI offered a five-day train-the-trainer session delivered by Robert Teichman. The attendees included potential trainers of the CLS Program. The session focused on the most complex elements of the CLS Program for which no local capacity exists but are fundamental to lessors offering more attractive lease financing and thus critical to the development of the industry. (the agenda, as well as the attendee list, is attached as *attachment 10*)

ATCI's Leasing Component completed 3 training sessions in July, August and September, covering Courses 1, 2 & 3. Exams were administered for each Course after each training session was completed. 40 individuals took all 3 exams, of which 26 passed all 3 and were eligible to receive the certificates of Certified Leasing Specialist. Of the 26 successful candidates, 4 were from the IFC Leasing Project, 11 were from the Leasing Industry including several top managers of Ukrainian Lessors, and 11 were from related industries including those who will be serving as trainers in future training sessions. Certificates are scheduled to be awarded in the Quarter ending December 31, 2006 (descriptions for all 3 CLS Courses and a list of the 26 successful candidates can be found in *attachment 11*).

Advisory services consisted of working directly with Ukrainian lessors as well as assisting CNFA with 2 volunteers. With the assistance of ATCI LeaseIT established 2 additional sources of funding. LeaseIT is the first lessor in Ukraine to offer financing for "small ticket" IT equipment, with minimal credit information, and thus offers the potential of substantial future lease volume, not only directly but by influencing other lessors to enter the same market. Their average transaction size is USD 2,500.00.

With ATCI's assistance LeaseIT entered into a revolving facility with VA Bank in May, 2006, with funding beginning in June, 2006, extending through September, 2006. This facility is being used to fund leases. Their high limit with VA Bank is currently UAH 500,000.

In September, LeaseIT entered into a revolving facility with Ukraine Financing Group ("UFG"). LeaseIT's current high limit is UAH 2 million with outstanding at UAH 900 million. ATCI introduced LeaseIT to UFG and assisted in negotiations.

In July ATCI introduced AMACO Finance to WesternNIS/Horizon Capital. The initial meeting was productive, but AMACO decided to wait to have further discussions until arrangements for the initial equity investment from their parent company has been completed.

During the Quarter, CNFA hosted two volunteers, Bob Lever and Steve Richards, who worked with 3 Ukrainian leasing companies on Marketing and Product Development (Lever) and Strategic Planning (Richards). ATCI considers the CNFA Volunteer Program, directed at

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Ukrainian leasing companies, to be a valuable extension to its advisory services. In this regard ATCI assisted CNFA in the planning, developing the respective scopes of work and the hosting of the volunteers. In addition both Lever and Richards delivered seminars on their respective subject areas to Industry Participants. (Agendas and attendee lists for their presentations are included in *attachments 12 and 13.*)

ATCI continued to work with both Reifeissen/Aval and Element Leasing with their plans to enter the Ukraine leasing market. ATCI has worked closely with Ukraine Leasing, the Leasing Subsidiary of UKRSIBBANK. Ukraine Leasing is now part of the BNP Group in conjunction with BNP’s acquisition of UKRSIBBANK. ATCI will continue to pursue foreign lessors, investors, and equipment suppliers in order to attract them to Ukraine and assist them with entering the market.

In September ATCI submitted a series of recommendations to the Ministry of Finance, in connection with improvement in the tax treatment of leases under Ukrainian tax law. ATCI will continue to assist the Government of Ukraine, as well as organizations including the IFC and the Commercial Law Center, in their efforts to improve the tax, legislative and legal environment for leasing in Ukraine.

IV. ADMINISTRATIVE ISSUES

On September 1, 2006 Richard Caproni submitted his resignation as Head of the Leasing Component. Mr. Caproni continued his duties through September 30, 2006, and on a part-time basis through October 31, 2006. Reference to the need for an increase in salary is contained in the ADMINISTRATIVE ISSUES section of the project executive summary.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Development of CLP Program for Ukraine	<ul style="list-style-type: none">▪ COMPLETED THE ESTABLISHMENT OF THE CLS PROGRAM.▪ DELIVERED 5-DAY TRAIN-THE-TRAINER COURSE ON THE MOST SOPHISTICATED SECTIONS OF CLS PROGRAM FOR POTENTIAL TRAINERS.
<ul style="list-style-type: none">• Develop and deliver training seminars for industry participants	<ul style="list-style-type: none">▪ DELIVERED TRAINING SESSIONS FOR ALL 3 CLS COURSES, AS WELL AS EXAMS FOR EACH OF THE 3 COURSES.▪ 26 INDIVIDUALS PASSED ALL 3 COURSES AND ARE CANDIDATES TO RECEIVE THE CERTIFICATE OF CERTIFIED LEASING SPECIALIST (CERTIFICATES TO BE AWARDED IN THE NEXT QUARTER.

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Work with key industry stakeholders to agree upon necessary reforms to create a favorable legal, tax and regulatory environment for leasing in Ukraine 	<ul style="list-style-type: none"> ▪ ATCI SUBMITTED SEVERAL RECOMMENDATIONS TO THE MINISTRY OF FINANCE ON IMPROVING THE TAX TREATMENT OF LEASES. ▪ ATCI WILL CONTINUE TO WORK DIRECTLY WITH VARIOUS INDUSTRY STAKEHOLDERS TO RAISE THE PROFILE OF LEASING AMONG RELEVANT GOVERNMENT OFFICIALS AND IMPLEMENT REFORMS TO IMPROVE THE LEGAL AND TAX ENVIRONMENT FOR LEASING IN UKRAINE.
<ul style="list-style-type: none"> • Conduct nation-wide informational and educational campaign on international best practice in leasing 	<ul style="list-style-type: none"> • ATCI CONTINUES TO WORK WITH INDUSTRY ASSOCIATIONS AND OTHER RELEVANT PARTIES TO ORGANIZE EVENTS AND DISTRIBUTE INFORMATION THAT RAISES THE PROFILE AND INCREASE UNDERSTANDING OF LEASING AND ITS BENEFITS WITHIN UKRAINE’S GOVERNMENT AND BUSINESS COMMUNITIES.

Task 3. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Provide advisory services to market participants 	<ul style="list-style-type: none"> ▪ CONTINUED WORK WITH ELEMENT LEASING (RUSSIA) AND RAIFFEISSEN LEASING AVAL REGARDING THEIR PLANS TO ENTER THE UKRAINIAN LEASING MARKET. ▪ UKRAINE LEASING COMPANY, ONE OF THE HOSTS FOR 3 CNFA VOLUNTEERS INCLUDING 2 THIS QUARTER, WAS PART OF THE ACQUISITION OF UKRSIBBANK BY BNP. ▪ INTRODUCED AMACO TO WESTERN NIS/HORIZON CAPITAL, AS A POSSIBLE EQUITY PARTICIPANT IN AMACO FINANCE. ▪ ASSISTED LEASEIT IN OBTAINING APPROXIMATELY UAH 2.5 MILLION IN ADDITIONAL BORROWING CAPACITY. ▪ ASSISTED CNFA IN THE PLANNING AND HOSTING OF 2 VOLUNTEERS, SPECIALIZING IN MARKETING & PRODUCT DEVELOPMENT AND STRATEGIC PLANNING. ▪ PROVIDED VARIOUS ADVISORY SERVICES TO LEASING COMPANIES IN ADDRESSING TAX AND LEGAL ISSUES AS WELL IN MAKING THEIR BUSINESS AND FINANCE PRODUCTS MORE COMPETITIVE. ▪ ATCI WILL CONTINUE TO FACILITATE RELATIONSHIPS BETWEEN LESSORS, BANKS, EQUITY INVESTORS, AND VENDORS TO INCREASE LEASING ACTIVITY BASED ON INTERNATIONAL BEST PRACTICE.

LIST OF ATTACHMENTS

ATTACHMENT 10. Agenda and Attendee List for CLS Train-the-Trainer Course

ATTACHMENT 11. Final Course Descriptions for CLS Program, List of Candidates

ATTACHMENT 12. Agenda and attendee list for seminar on Marketing and Product Development delivered by CNFA Volunteer Bob Lever.

ATTACHMENT 13. Agenda and attendee list for seminar on Marketing and Product Development delivered by CNFA Volunteer Steve Richards

D. CREDIT BUREAU/CREDIT RATING AGENCY

I. COMPONENT DESCRIPTION

Credit Bureau

This report provides details on events and activities relating to the Credit Bureau component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from July 1, 2006 through September 30, 2006. Additionally, the component includes the development of domestic credit ratings.

The objective of this activity is to establish and develop a Credit Bureau in Ukraine, which is a key piece of financial infrastructure. A Credit Bureau serves as a financial intermediary between the lender and the borrower in order to stimulate, in the first instance, the SME and retail markets within a free market competitive economic system.

The practical definition of a Credit Bureau, for design and implementation purposes in Ukraine, is one of an impartial entity that will store all past and present credit transactions entered into by a particular legal or physical person, and one that will indicate the manner in which the subject of the credit profile repaid the obligation to the respective creditors. The Credit Bureau would contain gender-neutral demographic information on a consumer to ensure proper identification, information that is pertinent to their creditworthiness, and an indication of the overall risk relating to an applicant. The Credit Bureau will provide an avenue for the verification or validation of any information that may be questioned or disputed by the subject of the credit profile. A Credit Bureau serves both parties in a credit transaction and is an excellent tool to reduce risk and facilitate and accelerate the approval process.

Development of domestic rating capacity in Ukraine is predicated on having a regulatory basis that fosters competition and independence and embodies world standards of practice.

II. SIGNIFICANT EVENTS

- ATCI/USAID CO-SPONSORS AND PARTICIPATES IN INTERNATIONAL CREDIT BUREAU CONFERENCE
- TWO PRACTICAL EDUCATIONAL WORK SHOPS ARE CONDUCTED FOR THE MINISTRY OF JUSTICE SPECIALISTS.
- FNBCH AND ICB CONTINUE ACTIVE NEGOTIATIONS WITH CELLULAR COMMUNICATION OPERATORS AND INSURANCE COMPANIES
- INTERNATIONAL CREDIT BUREAU PREPARES FOR TEST SALE OF FIRST CREDIT REPORT IN UKRAINE
- ATCI, MINISTRY OF JUSTICE, AND MARKET PARTICIPANTS FINALIZE LICENSING REGULATION.

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- SSMSC INTRODUCES NEW AMENDMENTS TO DRAFT REGULATION #236.
- SSMSC ADOPTS RESOLUTION “ON APPROVING THE PROCEDURE FOR KEEPING THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES AND ISSUING CERTIFICATES” FOR INCLUSION IN THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES”.
- “CREDIT RATING” IS INCLUDED INTO THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES WITHOUT A TENDER.
- SSMSC ADOPTS THE RESOLUTION “ON APPROVING THE PROCEDURE FOR SUBMISSION OF INFORMATION TO SSMSC BY AUTHORIZED RATING AGENCIES”.
- SSMSC ISSUES DRAFT RESOLUTION “ON APPROVING THE RULES FOR ASSIGNING RATINGS UNDER THE NATIONAL SCALE BY THE AUTHORIZED RATING AGENCIES”.
- SSMSC AND MARKET PARTICIPANTS DEVELOP THE DRAFT LAW “ON RATING SYSTEM”.
- ATCI BEGINS DRAFTING WHITE PAPER ON UKRAINIAN RATING INDUSTRY.

III. EXECUTIVE SUMMARY

ATCI continued to provide on-going consultancy to ensure compliance with international standards of best practice during the development phase of a credit reporting system, and to provide advice to the overall market with respect to data sharing and the reduction of data fragmentation.

During the quarter, ATCI’s area of focus remained in two basic areas: a) overall coordination of the market given the likelihood of data fragmentation and b) drafting regulations.

Moreover, ATCI further helped to consolidate the interests of commercial banks to fund a private credit bureau, and to deepen the market’s awareness of a credit bureau’s role in risk and portfolio management. ATCI, based on experience in other markets and interviews in country, understands the educational challenges in communicating to all stakeholders the importance of data sharing.

ATCI continues to interface on a regular basis with FNBCH and other interested parties, including foreign credit bureau operators.

Continued assistance to FNBCH and Creditinfo

In the quarter, both FNBCH and Creditinfo continued to request assistance from ATCI, in particular with regard to) educating market participants, and b) providing support to the credit bureau regulatory authorities with respect to draft regulations, the meaning of data exchange and

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the need to find a balance between privacy and data flows. ATCI supported our counterpart in the following areas by working with:

- Legal and regulatory matters related to implementation of the CB law
- Banks and other financial institutions in data sharing
- Non-financial institutions to secure their participation in data sharing.

FNBCH remains ATCI's primary counterpart. Activities with Creditinfo and other potential market players are first discussed with FNBCH prior to taking any action. .

International Conference on Credit Bureau Operations in Ukraine

ATCI/USAID co-sponsored and actively participated in the international credit bureau conference held in Kyiv at the end of September 2006. The main objectives of the conference were to discuss the important role credit reporting and credit scoring play in modern risk management and to discuss what constitutes an enabling regulatory environment for the efficient running of credit bureaus. The conference also aimed at establishing cross-country networks to share experiences and provide a forum to promote regional cooperation. The conference was attended by 250 participants that included representatives of the CB community from Ukraine, Russia, Georgia and Kazakhstan, officials from Moldova, senior managers from Experian and CreditInfo, bankers, representatives from Ukrainian financial and non-financial sector, as well as journalists and government officials. The conference participants in panels and during presentations discussed the implications of the new legislation for the operations of credit bureaus and lenders as well as the experience of successful credit bureau operations in the region.

Two Practical Work Shops are Conducted for the Ministry of Justice Specialists

ATCI conducted two practical workshops for the Ministry of Justice specialists. The workshops were educational in nature, structured in the form of discussion followed by questions and answers; and covered issues related to both the practical aspects of CB operations and international experience with effective CB regulation.

FNBCH and ICB Negotiations with Cell Communication Operators and Insurance Companies.

Preparing for the start - up of operations, FNBCH and ICB held active negotiations with cellular communication operators and insurance companies to create a unified database of all contract base subscribers (in telecom sector) and develop special products on credit management and fraud prevention for the telecom and insurance sector.

Legal/Regulatory and Ministry of Justice

As referenced in previous quarterly reports, the Cabinet of Ministers of Ukraine issued a Resolution that assigned the Ministry of Justice of Ukraine to serve as the authorized body responsible for licensing and regulation of credit bureau operations. Pursuant to the Ukrainian Credit Bureau Law, the authorized body was mandated to draft the regulations governing licensing requirements and other rules for credit bureau operations in Ukraine.

ATCI finalized regulations governing licensing requirements. ATCI, FNBCH, Creditinfo, and MOJ agreed on draft licensing regulation. However, this regulation has yet to have agreed to by

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State Committee for Entrepreneurship and Regulatory Issues as well as with the Ministry of Justice Department for registration of regulations.

Separately, the Ministry of Justice requested ATCI to prepare materials for them and advise on two specific sets of regulations: a) Regulation governing the Unified Registry, and b) Inspection of Credit Bureaus. During the period under review FNBBCH, Creditinfo, and MOJ focused their efforts on the regulation governing the Unified Registry of Credit Bureaus and the preliminary draft of this regulation was developed. Further polishing of this document will depend on the status of the Licensing Regulation. More detailed work with respect to all three regulations is expected to continue in the 4th quarter of 2006 and 1st quarter of 2007. Considering the complex nature of this task, its successful completion will significantly depend on the degree of cooperation and input from all interested parties.

ICB is Basically Ready for the Sale of the First Credit Report

By the end of September 2006, ICB has practically completed all necessary technical activities for a test sale of the first credit report. According to ICB management, the test sale is expected in October-November 2006.

Credit Rating

ATCI Credit Rating component is aimed at promoting the development of competitive, fair, and effective credit rating industry in Ukraine.

Ukraine faces great challenges in fostering further development of its capital markets that facilitate efficient mobilization of domestic and foreign capital to support sustainable economic growth. Credit ratings offer significant benefits for investors. It is true that ratings do not constitute investment or financial advice. Ratings are not recommendations to purchase, sell, or hold particular securities. However, ratings do serve as an important tool for the adoption of sound and informed investment decisions.

Ratings represent additional information content and quality framework for the market. They facilitate investor comparison and selection of investment alternatives. A rating agency, with its fundamental approach and access to information provides ratings that validly compare and contrast the strengths of different organizations and represent opinions regarding relative future creditworthiness of entities or instruments.

Development of a competitive Ukrainian ratings industry is just underway and ATCI's objective is to make sure that it goes the right way. To achieve this objective and in active cooperation with market participants and government agencies, ATCI has been focusing its efforts on establishing policy dialogue aimed at both the development of fair and effective regulatory framework and implementation of best international practices at the operational level.

Brief Historic Note

The mandatory rating requirement came into existence in late 2004. This required those companies wanting to issue ratings in Ukraine to be selected by tender conducted by the SSMSC. One key requirement was that the rating company be a Ukrainian legal entity. This rationed participants to only a few and kept the internationally recognized rating agencies out all together. Only Credit Rating received authority from the SSMSC to offer ratings to Ukrainian issuers.

Effectively, any company or municipality who wanted to issue securities had to use them. The mandatory requirement remains in effect to this day and accounts for the exceptional growth of CR.

The Current Situation

Adoption of the Law of Ukraine # 3201 dated Dec. 15, 2005 expands and legislates mandatory ratings. This Law specifies the issuers and types of securities¹ subject to mandatory rating. In response to Law #3201, the SSMSC developed and adopted the resolution that allows Ukrainian companies to use Fitch, Moody`s and Standard & Poor`s ratings for the domestic market. In other words, these three international rating agencies are allowed by the law to assign ratings (still mandatory) to Ukrainian issuers and their securities.

Pursuant to the Law # 3201 mandatory ratings can be assigned by:

Authorized Ukrainian rating agencies certified by the SSMSC;
International rating agencies recognized by the SSMSC.

Additionally, The National scale approved by the Cabinet of Ministers must be used only by authorized Ukrainian rating agencies;
International rating agencies can use their own scales.

Consequently, under legal provisions of the law #3201 Ukrainian companies, banks and municipalities are free to choose between international rating agencies and Ukrainian authorized rating agencies. However, in practice this can be problematic. In certain cases (specifically with regard to securities that can be purchased by insurance companies and pension funds, and with regard to banks in which they can deposit their funds) the law says that the assigned ratings must match the investment level under the national scale approved by the Cabinet of Ministers of Ukraine. At the same time it is unclear from the law how the ratings assigned by international rating agencies or the national scale for Ukraine developed by international rating agencies can be matched to the national scale approved by the Cabinet of Ministers of Ukraine. Therefore, although the law #3201 does not include direct prohibitions² for international rating agencies, practical value of their ratings in the above mentioned cases may lead to disputes.

At the same time (due to the entry of international rating agencies to the domestic market), the SSMSC tightened the requirements for Ukrainian rating agencies that want to obtain the status of authorized rating agency. Pursuant to the latest draft amendments to SSMSC Regulation #236 “On Terms of Tender/Competition for Selecting Authorized Rating Agencies”, the applying company must meet the following requirements (bellow is an extract related to eligibility requirements specified in the latest draft amendments to SSMSC Regulation #236):

¹ All types of issuable securities (which are not allocated among the founders or among the preliminary determined persons) are subject to mandatory rating, except the following types of securities: *government securities, shares, securities of non-diversified joint investment institutions, securities issued by State Mortgage Institution*

² The only directly discriminative provision of the law is related to the purchase of securities by pension funds. Pension funds can buy securities only if both the securities and the issuer of such securities have been rated. Based on the wording of the law, in this case securities can be rated by either Authorized Rating Agency or international rating agency, but the issuer must be rated only by the Authorized Rating Agency.

“4. Procedure and Conditions for Participation in the Tender

- 4.1. To be eligible to take part in the tender, a bidder shall confirm its intention to participate in the tender in writing, submit tender documents and meet the following criteria:
 - 4.1.1. To be a Ukrainian resident;
 - 4.1.2. To apply the National Rating Scale for rating purposes;
 - 4.1.3. To follow in its work the rating procedure which is in line with the rating rules applicable for an authorized rating agency as approved by the State Commission for Securities and Stock Market;
 - 4.1.4. To have no individuals participating in the financial services market, having proprietary rights or any interest with any participants of the financial services market, or otherwise affiliated with any participants of the financial services market among its founders and/or members and/or shareholders;
 - 4.1.5. To have no individuals who hold official positions in organizations that participate in the financial services market and/or official positions in any affiliated structures of such participants of the financial services market among its managers;
 - 4.1.6. To assign no credit ratings for its founders and affiliated (related) entities.
 - 4.1.7. To have an infrastructure sufficient for efficient data collection, processing and analysis, namely:
 - Telephone lines – at least 10
 - Computers – for each employee but not less than 15, minimum technical requirements – processor CPU 1 GHz, memory RAM 128 MB;
 - Fax machine;
 - Access to Internet and an electronic mail address.
 - 4.1.8. To have and to maintain an official website for disclosure of information about assigned credit ratings;
 - 4.1.9. To have enough employees with necessary qualification for fulfilling rating procedures and processing the full volume of mandatory rating assessment, namely:
 - At least 15 employees having a degree not lower than Specialist in finance and/or economy and at least 2 years of work experience in the respective field.”

However, the SSMSC postponed the tender for selecting authorized agencies and has not set a future date for the tender.

The above mentioned Regulation was severely criticized by the market and the SSMSC is finding itself under the pressure to revise and soften eligibility requirements.

During the period under review, the SSMSC adopted the Resolution “On Approving the Procedure for Keeping the State Registry of Authorized Rating Agencies and Issuing the Certificate on Inclusion to the State Registry of Authorized Rating Agencies (dated June 23 2006, # 444. It was registered by the Ministry of Justice as of July 12, 2006, #823/12697). This resolution seemed basically harmless and by logic was really required to keep the registry of authorized rating agencies. Logic also dictates that any rating agency can be included in this registry only after it has been granted the status of authorized rating agency based on the tender (which was postponed as specified above). However, shortly after the adoption of this Resolution

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the SSMSC included “Credit-Rating” into the registry of authorized rating agencies without any tender. These actions of the SSMSC also provoked very harsh criticism on the part of the market.

In August, the SSMSC issued Draft Resolution “On Approving the Rules for Assigning Ratings under the National Scale by the Authorized Rating Agencies”. A brief overview of this Draft Resolution is attached as an Appendix to this Report (*see attachment 14*).

In addition, the SSMSC adopted the Resolution “On approving the Procedure for Submission of Information to SSMSC by Authorized Rating Agencies” dated September 19, 2006, #855. This Resolution specifies information disclosure requirements for authorized rating agencies and is expected to be registered by the Ministry of Justice in October.

Draft Law of Ukraine “On Rating System”

The SSMSC developed the Draft Law of Ukraine “On Rating System”. Originally SSMSC drafting efforts provoked a lot of criticism on the part of the market and later market participants were included into the task force group responsible for the development of this Draft Law. As seen from the perspective of market participants, the final wording of the Draft Law is “more or less acceptable”. It opens certain opportunities for competition and specifies “softer” eligibility requirements for Authorized Rating Agencies (at this stage eligibility requirements in the Draft Law differ from those specified in SSMSC Draft Regulation #236). However, this Draft Law does not invalidate mandatory ratings. Clause 1.3. of Article 4 (Principles of Rating System) of the Draft Law stipulates that “Ratings are voluntary unless otherwise directly stipulated by the law” and Article 11 of the Draft Law spells out the cases for mandatory rating assessment. At this stage the market is interested in this Draft Law but the SSMCS is not pushing for its adoption. Rather, ATCI is focusing its efforts on regulations that support current legislation.

ATCI Efforts Aimed at Improving the Status of Credit Rating Industry

To promote the development of effective and competitive credit rating industry in Ukraine, ATCI engaged Michael McMullen, an international credit ratings expert, to prepare a White Paper on the status of the ratings industry in Ukraine, as well as recommendations for improving market conditions. Mr. McMullen, who has over 20 years experience with MOODY'S INVESTORS SERVICE, and who participated in assignments and projects for banks, financial institutions, and NGO, such as USAID, World Bank, Thomson BankWatch in more than 20 countries around the world, is conducting a series of meeting with market participants, regulators and other interested parties to gather hands-on information required for preparation of the White Paper. Final drafting and dissemination of the White Paper is expected in the 4th quarter 2006.

IV. ADMINISTRATIVE MATTERS

NONE

V. DESCRIPTION AND STATUS OF TASKS

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> • Develop and establish linkages with primary international credit bureau operators 	<ul style="list-style-type: none"> • COMPLETED - CREDITINFO WINS FNBCH TENDER AND OPERATES THE SECOND LARGEST CB OPERATOR.
<ul style="list-style-type: none"> • Secure buy-in of local data providers and users 	<ul style="list-style-type: none"> • MARKET REMAINS SPLIT – DATA FRAGMENTATION CONTINUES AS FOUR CREDIT BUREAUS HAVE BEEN ESTABLISHED IN UKRAINE.
<ul style="list-style-type: none"> • Sponsor visits to potential foreign CB partners 	<ul style="list-style-type: none"> • COMPLETED - FINANCIAL ASSISTANCE HAS NOT BEEN REQUESTED AND IS NO LONGER REQUIRED.
<ul style="list-style-type: none"> • Determine and review CIC development strategy with government and counterparts 	<ul style="list-style-type: none"> • FNBCH REQUESTS FURTHER ATCI ASSISTANCE • CONTINUED DISCUSSIONS WITH AUB AND OTHER CIC REPRESENTATIVES FURTHER IMPLEMENTATION STRATEGY FOR THE DEVELOPMENT OF CB.
<ul style="list-style-type: none"> • Market best approach for structuring, establishing and operating CIC 	<ul style="list-style-type: none"> • PUBLIC RELATIONS STRATEGY DEVELOPMENT CONTINUES AND INCLUDED VISITS TO INDIVIDUAL MARKET PARTICIPANTS. • FNBCH AND ICB CONTINUE NEGOTIATIONS TO CONCLUDE AGREEMENTS WITH THE TELECOMMUNICATIONS AND INSURANCE SECTOR. • ICB IS READY FOR THE TEST SALE OF A CREDIT REPORT.
<ul style="list-style-type: none"> • Analyse and Coordinate passage of law 	<ul style="list-style-type: none"> • MARKET PARTICIPANTS RECOGNIZE THE NEED FOR AMENDMENTS TO THE CREDIT BUREAU LAW. HOWEVER, GIVEN THE STATE OF MARKET DEVELOPMENT, IMMEDIATE AMENDMENTS ARE DEEMED PREMATURE.
<ul style="list-style-type: none"> • Define Business and Operations Plan 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Outline Package of Technical Requirements 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Discussions with Government Data Providers 	<ul style="list-style-type: none"> • DIFFICULTY IN FINDING THE “PERSON” IN CHARGE OF PUBLIC REGISTRIES CONTINUES
<ul style="list-style-type: none"> • Secure Buy-in of Foreign Investors and Banks 	<ul style="list-style-type: none"> • EXPERIAN STILL INTERESTED IN UKRAINE • NO NEW DEVELOPMENTS ON A BANK SIDE
<ul style="list-style-type: none"> • Develop and Deliver Package of Training Programs (banks, leasing, credit unions) 	<ul style="list-style-type: none"> • AUB REQUESTS ATCI TO CARRY OUT A SERIES OF PRESENTATIONS FOR REGIONAL BANKS. • THIS ACTIVITY, TO HAVE BEEN ORGANIZED BY AUB AND UNDERTAKEN JOINTLY WITH AUB, HAS BEEN POSTPONED UNTIL 2007.

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<ul style="list-style-type: none"> • Assist the Ministry of Justice in drafting regulations governing CB operations 	<ul style="list-style-type: none"> • THE MINISTRY OF JUSTICE REQUESTS ATCI ASSISTANCE IN DRAFTING REGULATIONS GOVERNING CREDIT BUREAU OPERATIONS. • ATCI, CREDITINFO, AND FNBCH JOINTLY DRAFT AND SUBMIT TO THE MINISTRY OF JUSTICE THE REGULATION ON LICENSING REQUIREMENTS. • ATCI, CREDITINFO, AND FNBCH AGREE TO DRAFT JOINTLY TWO MORE REGULATIONS: ON UNIFIED REGISTRY OF CREDIT BUREAUS, AND ON INSPECTION OF CREDIT BUREAUS.
<ul style="list-style-type: none"> • Deliver educational workshops for the specialists of the Ministry of Justice 	<ul style="list-style-type: none"> • COMPLETED - ATCI HOLDS 2 MINI WORK SHOPS FOR THE SPECIALISTS FROM THE MINISTRY OF JUSTICE • MINISTRY OF JUSTICE EXPRESSED INTEREST IN FURTHER SEMINARS
<ul style="list-style-type: none"> • Discuss participation in international credit bureau conference to be held in Kyiv/Ukraine 	<ul style="list-style-type: none"> • COMPLETED - ATCI CO-SPONSORED AND PARTICIPATED IN INTERNATIONAL CREDIT BUREAU CONFERENCE.
<ul style="list-style-type: none"> • Participation in international Conference “Payment Card – 2006” 	<ul style="list-style-type: none"> • COMPLETED - ATCI ATTENDED THIS CONFERENCE BUT DID NOT CO-SPONSOR IT OR MAKE ANY PRESENTATIONS.
<p>CREDIT RATING COMPONENT</p>	
<ul style="list-style-type: none"> • Assist in the development of competitive and fair ratings industry 	<ul style="list-style-type: none"> • ATCI ENGAGED INTERNATIONAL CREDIT RATINGS EXPERT TO PREPARE THE WHITE PAPER ON THE STATUS OF AND RECOMMENDATIONS FOR UKRAINIAN RATING INDUSTRY.
<ul style="list-style-type: none"> • Analyze existing Regulatory framework 	<ul style="list-style-type: none"> • ATCI CONTINUES TO ANALYSE AND MONITOR EXISTING LEGISLATION AND REGULATORY FRAMEWORK. • EXSITING LAWS AND REGULATIONS CONTAIN A NUMBER OF PROVISIONS, WHICH ARE DETRIMENTAL FOR FURTHER DEVELOPMENT OF FAIR AND COMPETITIVE RATINGS INDUSTRY. • SSMSC INTRODUCED NEW AMENDMENTS TO DRAFT REGULATION #236. • SSMSC ADOPTED THE RESOLUTION “ON APPROVING THE PROCEDURE FOR KEEPING THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES AND ISSUING THE CERTIFICATE ON INCLUSION TO THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES”. • “CREDIT RATING” IS INCLUDED INTO THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES WITHOUT A TENDER. • SSMSC ADOPTED THE RESOLUTION “ON APPROVING THE PROCEDURE FOR SUBMISSION OF INFORMATION TO SSMSC BY AUTHORIZED RATING AGENCIES”. • SSMSC ISSUED DRAFT RESOLUTION “ON APPROVING THE RULES FOR ASSIGNING RATINGS UNDER THE NATIONAL SCALE BY THE

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	<p>AUTHORIZED RATING AGENCIES”.</p> <ul style="list-style-type: none">• SSMSC AND MARKET PARTICIPANTS DEVELOPED THE DRAFT LAW “ON RATING SYSTEM”.
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LIST OF ATTACHMENTS

ATTACHMENT 14. SSMSC Draft Rules for Assigning Ratings

E. GENDER

I. COMPONENT DESCRIPTION

This report details events and activities relating to Gender of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from July 1 through September 30, 2006.

Programs related to gender have political and cultural implications that should be considered in any approach. ATCI is seeking opportunities for increased income and empowerment for both women and men.

ATCI management recognizes the importance of carrying out gender sensitivity training for the staff in order to have a solid basis for the monitoring work.

With respect to monitoring participation in training programs and events by gender, the following activities will be undertaken to the extent feasible and possible:

- Examine the program to ascertain whether if there are any provisions that could differentially discourage persons of one sex or another from participating;
- Inquire about how program outreach is conducted to understand whether if these procedures may be differentially affecting participation by gender;
- Examine the actual patterns of participation by gender in selected programs, to the extent permitted by the data;
- Where differential participation by gender is identified, try to understand its causes and make appropriate changes.
- With respect to the representation of women in higher positions in government agencies, the ATCI will work to balance the composition by gender of groups being trained by the project.

Pragma continues to partner with local organizations managed by women or consisting mostly of women. Three good examples are the Association of Ukrainian Banks and the Commercial Law Center as well as the PFTS securities trading system.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- SIXTEEN CANDIDATES (5WOMEN) BECOME CML CERTIFIED
- TWENTY SIX CANDIDATES BECAME CLS CERTIFIED

III. EXECUTIVE SUMMARY

All ATCI tasks present opportunities to identify and address gender bias, and to actively promote gender equality in Ukraine's financial sector. For example, ATCI is working closely with the Ukrainian National Mortgage Association, the Association of Ukrainian Banks, the Commercial Law Center and other organizations that understand the importance of gender sensitivity with respect to product and services development. These issues have not only been discussed but plans are underway to draft material and articles which point out important opportunities in this area.

During the quarter, ATCI delivered seminars, workshops, and conferences involving two of its four components. In Mortgage, a total of five women candidates received CML accreditation during the quarter. In Leasing, a total of ten women received the CLS designation.

All ATCI training and professional development strives for gender balance during the invitation process as well as in delivery of content. Post - event analysis is conducted to understand the reasons for underweighting when it occurs.

The Project staff of ATCI project includes 11 women out of 26 some of whom have professional and technical skills in finance and law.

IV. ADMINISTRATIVE ISSUES

NONE

V. DESCRIPTION AND STATUS OF TASKS

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Partner with Woman – run organizations (CLC & UAB)	<ul style="list-style-type: none">• ATCI IS WORKING CLOSELY WITH THE ASSOCIATION OF UKRAINIAN BANKS, THE COMMERCIAL LAW CENTER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY RELATED TO PRODUCT AND THE DEVELOPMENT OF SERVICES.
<ul style="list-style-type: none">• Increasing the role of women in the financial sector through training and /or other initiatives	<ul style="list-style-type: none">• THE STAFF OF ATCI INCLUDES WOMEN AND MEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW.• ALL PROJECT TRAINING STRIVES FOR AN EVEN BALANCE OF MEN AND WOMEN.
<ul style="list-style-type: none">• Gender and cultural sensitization training	<ul style="list-style-type: none">• GENDER SENSITIVITY IS PRACTICED DAILY BY ALL ATCI STAFF AND HIGHLIGHTED AT THE ANNUAL STAFF RETREAT

LIST OF ATTACHMENTS

NONE

ATTACHMENT 1

THE 4TH INTERNATIONAL FORUM OF CAPITAL MARKET PARTICIPANTS
ALUSHTA-2006

CONFERENCE AGENDA

14 September

12:00-20:00	Registration
13:00-15:00	Lunch (<i>More Restaurant, 1st Floor</i>)
15:00-19:00	Business meetings, networking with the media
19:30-22:00	Official opening of the conference. Entertainment: presentation of the KVN Top League ChP team (<i>More Restaurant</i>)

15 September

08:00-10:00	Breakfast (<i>More Restaurant, Morskoy Restaurant*</i>)
10:00-13:00	SESSION I (<i>More Restaurant, 2nd Floor</i>)
13:00-14:30	Lunch (<i>More Restaurant, 1st Floor</i>)
14:30-17:00	SESSION II (<i>More Restaurant, 2nd Floor</i>)
18:30-20:00	Dinner (<i>More Restaurant, 1st Floor</i>)
20:00-24:00	ING Cocktail Party. Performance of S.K.Y Band. Discotheque: DJ Starkov

16 September

08:00-10:00	Breakfast (<i>More Restaurant, Morskoy Restaurant*</i>)
10:00-13:00	SESSION III (<i>More Restaurant, 2nd Floor</i>)
13:00-14:00	Lunch (<i>More Restaurant, 1st Floor</i>)
14:15-15:30	SESSION IV (<i>More Restaurant, 2nd Floor</i>)
15:30-20:00	Business meetings, networking with the media
20:00-22:00	Closing of the Conference. Reception (<i>More Restaurant</i>)

17 September

08:00-10:30	Breakfast (<i>More Restaurant, Morskoy Restaurant*</i>)
12:00	Departure of the participants from the More Pension

* For those staying at the Morskoy Pension

* For those staying at the Morskoy Pension

* For those staying at the Morskoy Pension

THE 4TH INTERNATIONAL FORUM OF CAPITAL MARKET PARTICIPANTS
ALUSHTA-2006

CONFERENCE AGENDA

15 September

SESSION I

Securities Market: Development and Regulation

Facilitator:	B. Timonkin, Board Chairman, Ukrsotsbank
10:00-11:30	What markets does Ukraine need? I. Zaria, PFTS President
	GOU Policies on the capital market A. Maksiuta, First Deputy Minister, Economy Ministry of Ukraine
	The role of investments and innovations in the creating a competitive State V. Ivchenko, Chairman, State Investment and Innovation Agency of Ukraine
	Prospect of securities market infrastructure development M. Nepran, SSMSC Chief-of-Staff
	Investment environment: Considered assessment of Ukraine's political profile I. Mitkukov, General Secretary, Financial Policy Institute
	Investment policy instruments: SME development in Ukraine T. Stepankova, Vice President, Ukrainian Union of Industrialists and Entrepreneurs
11:30-11:45	Coffee break
Facilitator:	I. Zaria, PFTS President
11:45-13:00	Ways to enhance the efficiency of the financial instruments market in Ukraine B. Timonkin, Board Chairman, Ukrsotsbank
	New requirements to the operations of professional participants-elements of the securities market infrastructure V. Kharytskyi, SSMSC Commissioner
	On the significance of Ukraine stock market infrastructure development Jacque Der Megredichian, Managing Director, Securities Directorate, Troyka Dialogue Investment Company (Russia)
	Securities Legislation – trends, problems, and prospects N. Kuznetsova, Vice President, SALKOM legal firm, PFTS Tertiary Court Chairperson
	Ukraine investment potential V. Yakymuk, General Director, Raiffeisen Investment
13:00-14:30	Lunch
SESSION II	SECURITIES MARKET: PROSPECTS AND PROBLEMS
Facilitator:	E. Neuman, Financial Instruments Issue Division Head, Ukrsotsbank
14:30-15:45	Is there a deficit of Ukrainian securities to invest in? D. Tarabakin, General Director, Dragon Capital IC
	Dynamics of the development and the prospects of the development of the Ukrainian equity market – an onlooker's view Ye. Kogan, General Director, Antanta Capital IC
	Online trading: First conclusions from the Russian experience M. Maletin, General Director, Renaissance-Online (Russia)
	Ukraine investment future in 2006-2007 E. Neuman, Financial Instruments Issue Division Head, Ukrsotsbank
	International IPO trends and the Ukrainian market prospects in the competition for the issuer O. Martens, President, International Business Institute

15:45-16:00	Coffee break
SESSION III	SECURITIES MARKET: RELIABILITY AND RISKS
Facilitator:	O. Onufrienko, Legal Department Head, KINTO
16:00-17:15	Financial markets development trends I. Nesterenko, SSMSC Commissioner
	Additional issue of Zaporizhstal shares: Inadequacy of legislation or conflict of interests? O. Onufrienko, Legal Department Head, KINT
	Global mismatches: general overview and their impact on Ukraine economy O. Valchyshen, Financial markets analysis department, ING Bank Ukraine
	On the professional participants rating issue and stock market instruments: Russian practices V. Chetverikova, General Director, NAUFOR (Russia)
	Ukrainian issuers bond rating – what stock market participants get S. Dubko, General Director, Credit Rating Agency
16 September	
SESSION IV	SECURITIES MARKET: INFRASTRUCTURE, INSTRUMENTS, AND INVESTORS
Facilitator:	O. Kyi, PARD President
10:00-11:15	Raiding and double registers problem V. Petrenko, SSMSC Commissioner
	Ukraine national depository system: experience, problems and prospects M. Shvetsov, Management Board Chairman, MFS Depository
	Stock market infrastructure development as promoting investment in Ukraine economy O. Kyi, PARD President
	Market infrastructure: future model prognosis and factors influencing its formation A. Holovko, Deputy Board Chairman, National Depository of Ukraine
	Ukraine depository system concept: what should it be? D. Smakhtina, Corporate Governance Director, SigmaBlayzer IC
11:15-11:30	Coffee break
Facilitator:	V. Gontareva, Deputy Board Chair, ING Bank Ukraine
11:30-13:00	Securitization of Ukrainian financial assets: new opportunities for the market V. Gontareva, Deputy Board Chair, ING Bank Ukraine
	Index funds in Ukraine. Initial experience and prospects M. Royko, Director, Development Department, On-line Capital Ltd.
	Pillar II of the accumulation pension system as a source of financial resources for Ukraine stock market A. Fedorenko, Vice President, KINTO
	Ukraine pension system – current status and development prospects A. Rybalchenko, FSR Commissioner, Director of the NPF Oversight Department
	Investing pension assets on the securities market: Problem issues D. Leonov, Rector, Ukrainian Stock Market Development Institute
	Prospective directions of collective investment in Ukraine V. Shakhurin, Executive Director, Univer IG (Russia)
13:00-14:30	Lunch
Facilitator:	A. Tabala, Director, Monitoring and Stock Market Development Strategy Department, SSMSC
	Assets evaluation: Peculiarities of asset re-evaluation when compiling financial reports under IFRS O. Polianskyi, Managing Partner, B.G.S.-Aktiv, Business General

	Support Group member, Baker Tilly International independent member
	Effective strategies: preparation of financial information for investors O. Pochkun, Managing Partner, AF IGK-Ukraine Audit Ltd., Baker Tilly International independent member
	Directions of disclosure by securities issuers under the new Securities and Stock Market law A. Tabala, Director, Monitoring and Stock Market Development Strategy Department, SSMSC
	Company value growth by direct investments I. Starodubova, Director, Horizon Capital Advisors

ATTACHMENT 2

ATCI

Ambassador William B. Taylor, Jr.

Kyiv, August 2, 2006

The Access to Credit Initiative In Ukraine

Sponsored by US Agency for International Development



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ACCESS TO CREDIT INITIATIVE
Mortgage, Municipal Finance, Leasing, Credit Bureau

ATCI

ATCI is about Building Investment Capacity and Wealth By Developing:

- The Mortgage Industry
- Financial Leasing Capacity
- A Municipal Bond Market and Liquidity Facility
- A Credit Bureau for Ukraine



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Mortgage Component



- Primary market
- Secondary market
- Associated market infrastructure



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Outstanding Residential Mortgage Debt (By country, in % of GDP)

*Old EU Members (2004)	The Netherlands	Italy
	111%	- 15%
*New EU Members (2004)		
Estonia	16.6%	
Latvia	11.5%	
Hungary	9.6%	
Czech Republic	7.6%	
<u>Poland</u>	<u>5.5%</u>	
**Ukraine	0.9%	

* Source: European Mortgage Federation

** Source: Ukrainian National Mortgage Association



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Mortgage, Municipal Finance, Leasing, Credit Bureau

Mortgage Origination: Projected Growth (Outstanding, in US\$ millions, 2001-2009)

Year	Lending, mln. \$	GDP, bln.\$	%
2001	66	38.009	0.2
2002	132	42.393	0.3
2003	415	50.133	0.8
2004	566	65.039	0.9
2005	2,099	82.871	2.5
2006	3,781	92.981	4.1
2007	6,050	105.252	5.7
2008	8,976	119.443	7.5
2009	12,557	134.064	9.4

Source: Ukrainian National Mortgage Association

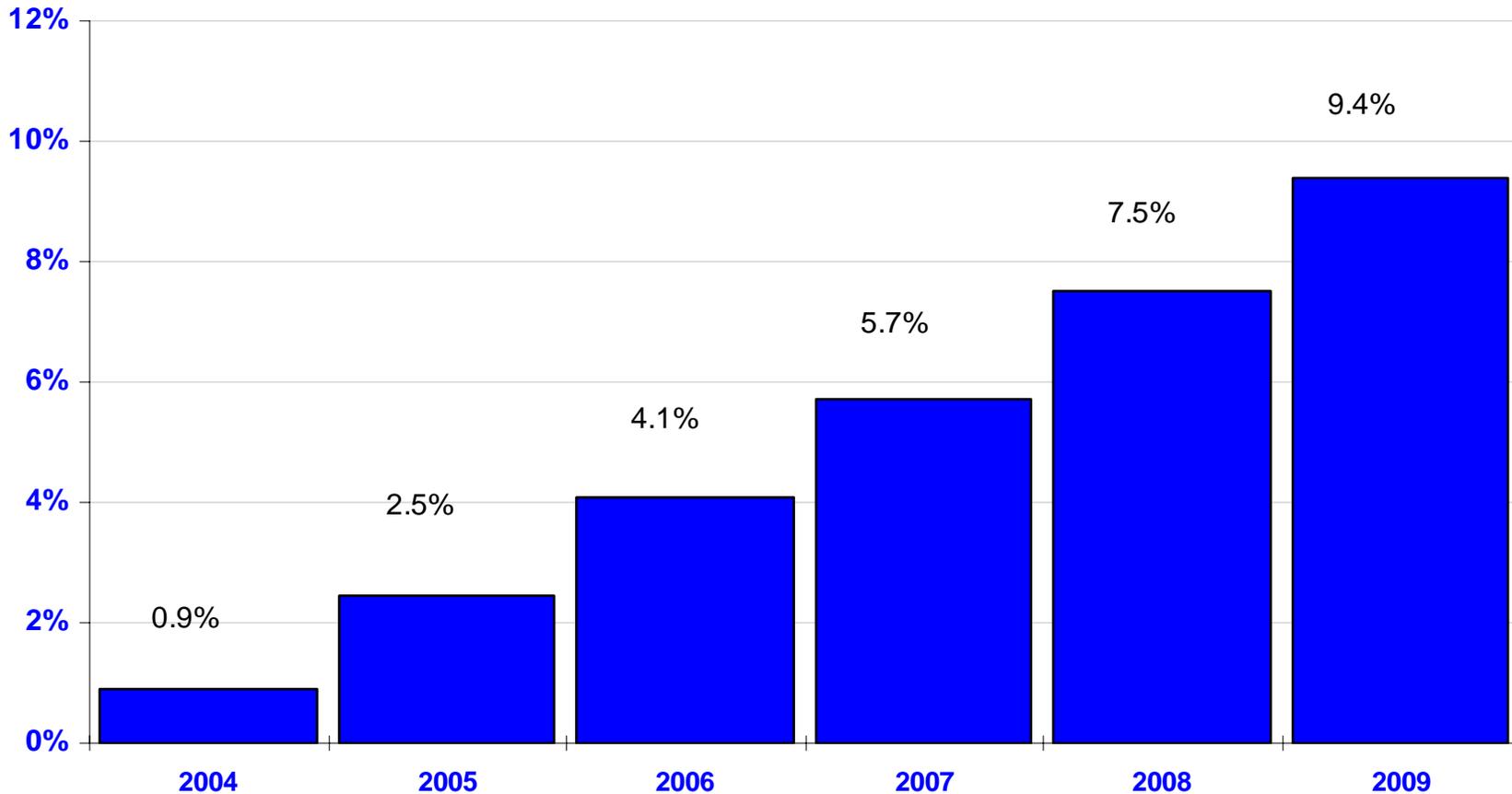


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ACCESS TO CREDIT INITIATIVE
Mortgage, Municipal Finance, Leasing, Credit Bureau

Mortgage Lending as a percentage of GDP

(In billions of US\$, 2001-2009)



Source: Ukrainian National Mortgage Association



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ACCESS TO CREDIT INITIATIVE
Mortgage, Municipal Finance, Leasing, Credit Bureau

Mortgage Primary Market

TO DATE:

INTERVENTIONS INCLUDE:

- DELIVERY OF CML COURSES
- EXPANSION OF CML TRAINING REGIONALLY
- SUPPORT FOR UKRAINIAN NATIONAL MORTGAGE ASSOCIATION (UNIA)

TO BE ACCOMPLISHED:

- SUSTAINABLE CML TRAINING THROUGHOUT UKRAINE
- SUSTAINED GROWTH IN MORTGAGE LENDING



Mortgage

Secondary Market

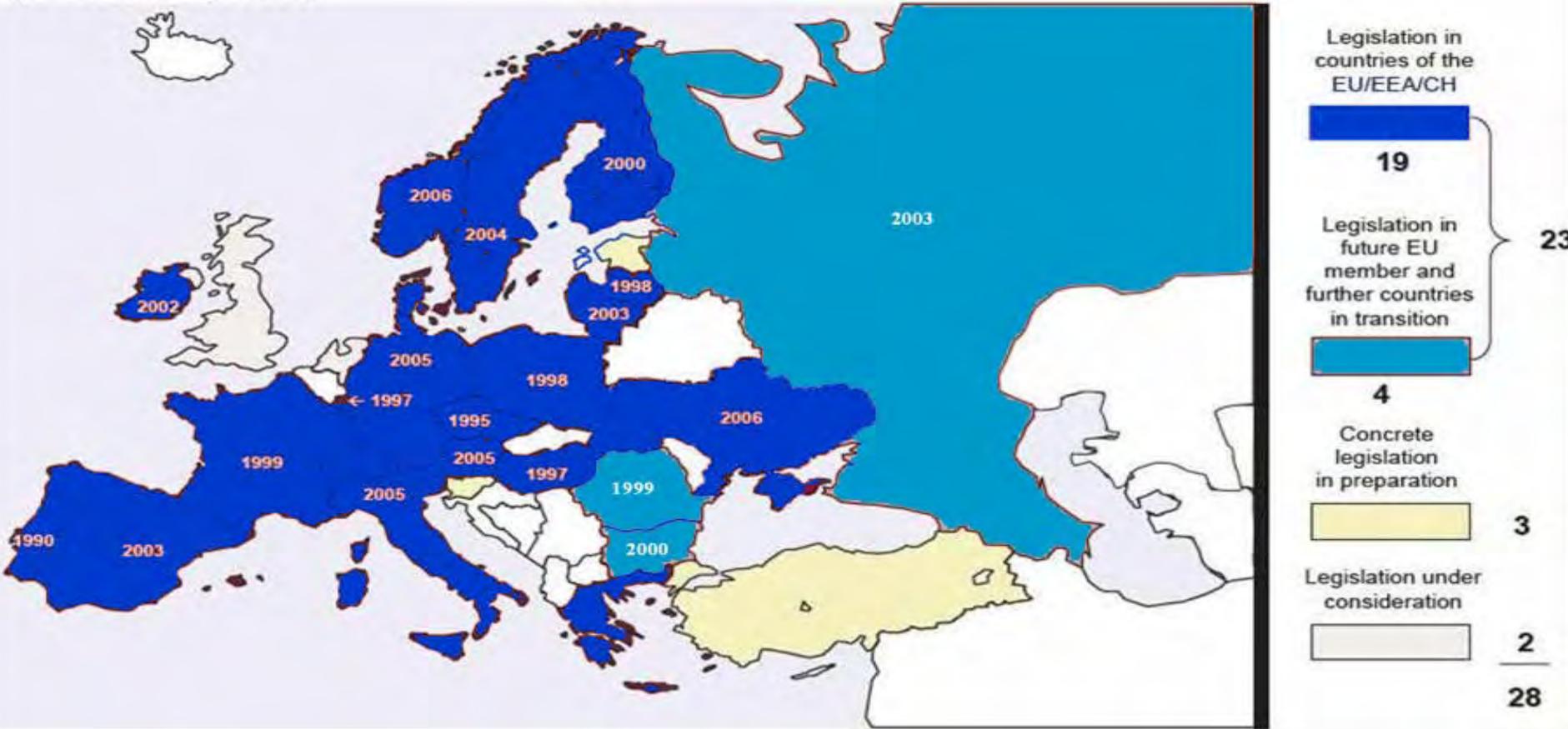
TO DATE:

- ESTABLISHMENT OF STATE MORTGAGE INSTITUTION
- PASSAGE OF THE MORTGAGE BOND LAW
- CONFIDENTIALITY AGREEMENTS SIGNED:
UKRGAZBANK; UKRSIBBANK; UKRSOTSBANK;
PRIVATBANK; STATE MORTGAGE INSTITUTION



CB Legislation

Geographical Overview - Covered Bond Legislation in Europe
(as of January 2006)



Mortgage

Secondary Market

TO BE ACCOMPLISHED:

- **ADOPTION OF IMPLEMENTING REGULATIONS**
- **ISSUANCE OF AT LEAST THREE PILOT MORTGAGE BONDS**
- **LIQUIDITY FACILITY**



Mortgage Secondary Market

Minimum Requirements for Issuance

- ✓ Mortgage Bond Law
- Securities Commission Regulation
- ✓ Select Issuers
- Test Issuer's Software
- ✓ Identify Auditors
- Identify Bond Managers
- Rate Issues
- Register Issues

- List and Place (Sell) Issues



Mortgage

Associated Market Infrastructure

TO DATE:

- **COMPLETED ASSESSMENT OF REAL ESTATE SALES PRACTITIONERS AND APPRAISERS**
- **COMPLETED ASSESSMENT OF MORTGAGE TERM LIFE**



Mortgage Associated Market Infrastructure

TO BE ACCOMPLISHED:

- **CERTIFICATION OF APPRAISERS IN ACCORDANCE WITH IVSC STANDARDS**
- **MLS PRACTICES FOR PRICING TRANSPARANCY**
- **COMPETITIVE MARKET FOR MORTGAGE TERM – LIFE INSURANCE**



ATCI

Municipal Finance Component

*Lighting up Ivano-Frankivsk
UAH 5.5 million, 12%, 5 years*



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Mortgage, Municipal Finance, Leasing, Credit Bureau

ATCI

Municipal Finance Component

*Lighting up Ivano-Frankivsk
UAH 5.5 million, 12%, 5 years*



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Mortgage, Municipal Finance, Leasing, Credit Bureau

Municipal Finance

- **BOND CAPACITY ASSESSMENTS:**

Komsomolsk (pop. 51,000)

Korasten (pop. 66,600)

Cherkasy (pop. 295,000)

Berdyansk (pop. 121,700) – next to issue

Ivano-Frankivsk (pop. 218,000) – issued

- **CREDIT SCREENING OF TWENTY UTILITIES**



Municipal Finance Facility

- INTER-MINISTERIAL MUNICIPAL FINANCE` CONFERENCE
- SWOT ANALYSIS
- STUDY ON STRATEGIC AND OPERATIONAL (MFF) OPTIONS
- MFF WORKING GROUP FORMALLY ESTABLISHED BY MINISTER OF CONSTRUCTION (MINISTERIAL ORDER)
- CABMIN APPROVED ACTION PLAN INCORPORATING MFF
- MINISTRY ENDORSED RAPID START-UP BY STATE WITH MANDATED PRIVATIZATION
- PRESENT TO COMMITTEE ON HOUSING CONSTRUCTION AND COMMUNAL ECONOMY



ATCI

Leasing Component



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ACCESS TO CREDIT INITIATIVE
Mortgage, Municipal Finance, Leasing, Credit Bureau

Snapshot of Leasing Development in Ukraine

2003 CLC Facilitates Passing of Law on Financial Leasing

**2004 Dec 31: 33 leasing companies registered (31 active);
New lease volume - \$160 million**

2005 ATCI Leasing Component begins activity

**2005 Dec 31: 106 leasing companies registered (58 active);
New lease volume - \$270 million**



Leasing

Success in building a sustainable and competitive leasing industry is measured by the volume of new leases



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Leasing Volumes in Neighboring Countries (in billions of Euros)

Source: Leaseurope

Country	New Leasing Volume in 2005
UK	55.8
Germany	49.3
Italy	44.2
Austria	6.7
Hungary	4.7
Romania	1.1
Slovakia	1.5
Czech Republic	4.0
Estonia	1.0
Poland	4.0
Russia	6.8
Ukraine	0.24



Leasing

Main Impediments:

- Lack of capital
- Lack of know-how



Leasing

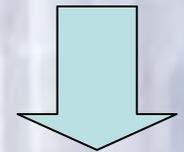
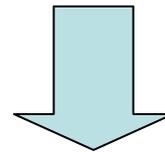
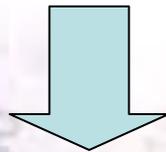
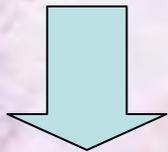
What are we doing?

**Importing
Capital and
Know-How**

**Building New
and Renovating
Existing Leasing
Companies**

**Professional
Development**

**Market
Development**



**Building a sustainable and competitive
leasing industry in Ukraine**

**Enabling
Environment**



ATCI

Leasing

Importing Capital
and Know-How



Element Leasing (Russia) started operations July 2006

Orix Leasing (Japan) planning due diligence

Garanti Leasing (Turkey) planning due diligence

Raiffeisen Leasing Aval (Austria) started operations July 2006

HVB Leasing (Germany) entering market in Fall 2006

SG Equipment Finance and ALD Automotive (France) entering the market in Fall 2006



ACCESS TO CREDIT INITIATIVE
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Leasing

BUILDING NEW AND RENOVATING EXISTING LESSORS

AMACO - First Specialized Ag Equipment Lessor

Impact: Expands availability of capital to ag. Sector; necessitates competitors to follow suit

Lease IT - First small-ticket (under \$5,000) lessor and first specialized lessor of IT equipment

Impact: Expands availability of capital to SME sector and serve as model to other lessors

Kapital Leasing – First Ukrainian lessor to attract Venture Capital

Impact: Expands financing available to Ukrainian enterprises



Leasing

BUILDING NEW AND RENOVATING EXISTING LESSORS

ATCI helps lessors improve finance products by focusing on the following four areas:

- Solidifying risk management policies and procedures
- Deal structure and pricing
- Marketing and Sales Strategy
- Attracting debt and equity funding



Leasing

PROFESSIONAL DEVELOPMENT / CLS PROGRAM

- Development of CLS program with Ukrleasing Association, IFC and leasing industry
- Targeted training for bankers: Co-sponsored conference on improving conditions of debt funding with NBU, UAB and IFC
- Targeted training for lessors on agricultural leasing



ATCI

Credit Bureau Component

experian



First National Bureau of Credit Histories



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Credit Bureau

TO DATE:

- **PASSAGE OF CREDIT BUREAU LAW**
- **CREDIT BUREAU ESTABLISHED**
- **BUSINESS PLAN PRODUCED**
- **TENDER DOCUMENTS DRAFTED**
- **INTERNATIONAL OPERATOR (CREDITINFO) SELECTED BY FNBCH**



Credit Bureau

TO BE ACCOMPLISHED:

- IMPLEMENTING REGULATIONS
- SEMINARS FOR MINISTRY OF JUSTICE
- PUBLIC AWARENESS CAMPAIGN



ATCI

ATCI is about Building Investment Capacity and Wealth By Developing:

- **The Mortgage Industry**
- **Financial Leasing Capacity**
- **A Municipal Bond Market and Liquidity Facility**
- **A Credit Bureau for Ukraine**

THANK YOU



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ACCESS TO CREDIT INITIATIVE
Mortgage, Municipal Finance, Leasing, Credit Bureau

ATTACHMENT 3



11 8 2006

ATTACHMENT 4

Housing Mortgage Lending in Ukraine

Analytical report for the first 6 months of 2006



Kyiv 2006

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Disclaimer

This analytical report (hereinafter - the “Analytical Report”) is based on current information received by UNIA specialists from the banks, government institutions, mass media and other sources of information that we believe to be reliable but assume no responsibility for their accuracy and fairness.

This analytical report has been prepared with the sole purpose to provide information. The analytical report is not a credit rating or a recommendation to obtain or to make loans.

This analytical report is not provision of consultancy services on any specific issues. Any specific issues that the users of the materials may have must be solved based on consultations with the relevant specialists.

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Economic Situation

Developments in the monetary and credit sphere in the 2nd quarter were adequate to the situation in the real sector of the economy which is characterized by acceleration of economic growth, positive pricing dynamics, growth of investments and certain decrease of separate characteristics of the foreign economic sector.

Real GDP in January-June 2006 was 105% compared to the relevant period of the previous year, in June – 109.3%. Nominal GDP, according to approximate evaluation, was UAH 206 billion in January-June, UAH 39.5 billion – in June.

In January-June, growth was demonstrated by practically all sectors of economy. At the same time, industry, trade, education and health protection were developing with accelerated speed in June compared to the previous months.

Dynamical growth of real GDP by 5% in the first six months of this year compared to the same period last year occurred mainly due to increase of gross value added in trade – by 8.6%, transport – by 8%, construction – by 6.5%, as well as production and distribution of electric energy, gas and water – by 5.7%.

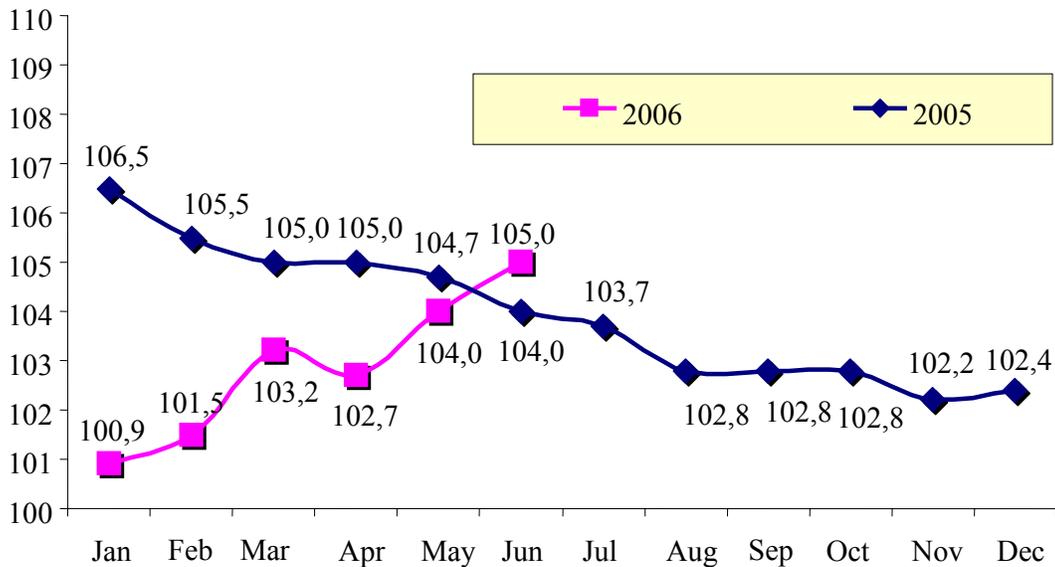


Chart 1. Changes in real GDP, % of the relevant period of the previous year

Taking into account results of the first six months, it should be mentioned that negative influence of growth of the gas price on Ukrainian economy was a bit exaggerated. At the same time, this factor will become more notable during the fall and winter period. Gas price will influence significantly those industries for which its percentage in cost of goods made is high (chemical and petrochemical industry, production and distribution of electric energy, gas and water, metallurgy and metal processing.)

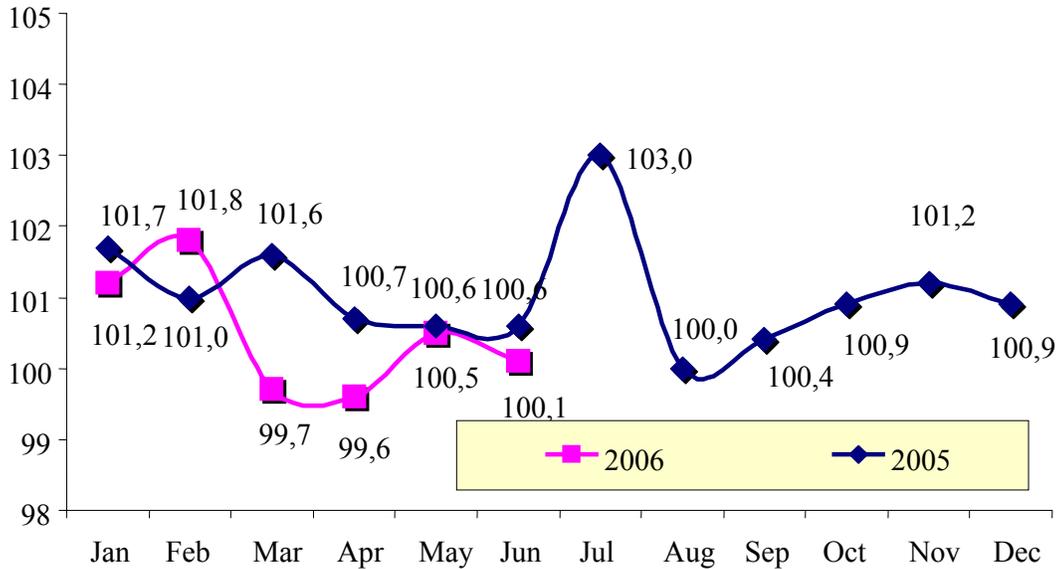


Chart 2. Consumer price index in 2005-2006, % of the previous month

Consumer price index (inflation index) was 100.1% in June 2006, from the year beginning – 102.9% (in the relevant period of the previous year – 106.4%). In January-June, growth ratio of prices (tariffs) for services (5.6%) was higher than growth of price for food products (2.7%) and non-foods (1.0%).

Moderate rate of inflation in June is caused by deflation in the market of food products (lasts from March), seasonal increase of products supply for vegetables and fruits, as well as re-routing of part of food export into domestic market due to introduction of trade limitations by Russia. In addition, percentage of food products (over 60%) in the consumer goods basket significantly exceeds services (about 20%).

At the same time, for the second month in a row, consumer prices are significantly influenced by the services sector. If in May growth of prices for services (by 3.6%) was caused by increase of prices for electric energy and gas (by 8.4%), in June it was caused by increase of tariffs for railway passenger transportation (by 26.6%). Price of services of the kindergartens, vacation hotels, travel agencies, hotels, housing renovation, technical maintenance and car repair, cinemas, individual services, medical facilities increased by 7.2-15%.

Therefore, inflation index in the last six months of the current year (2.9%) is 3.5% lower compared to the similar period of 2005 (6.4%). This enables to forecast that annual inflation will not exceed 10%. However, deflation is unlikely in July due to increase of tariffs for communal services after increase of gas price which will outweigh seasonal decrease of prices for food products.

In the second half-year, inflation burden on economy will increase also because there is certain time lag between growth of prices and tariffs and their reflection in inflation index.

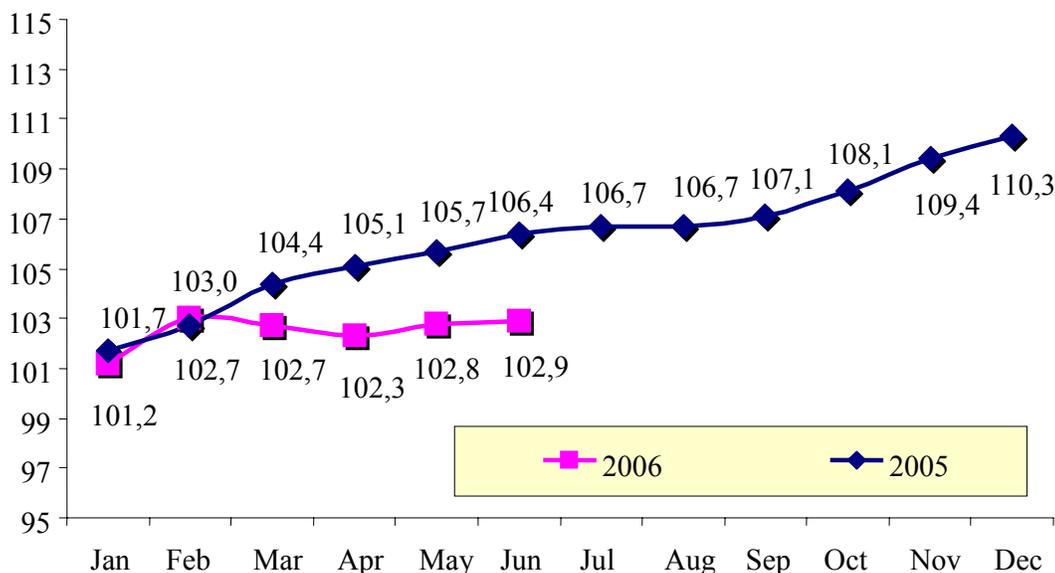


Chart 3. Consumer price index in 2005-2006, % of December of the previous year

As in the 1st quarter of 2006, in the 2nd quarter, monetary and credit policy of the National Bank of Ukraine was aimed at provision of stability of the national currency using the currency interventions mechanism.

From the beginning of 2006, an official exchange rate of UAH to USD remains at the level of UAH 5.05/USD 1 and practically does not differ from its market level: the difference is usually not more than 1%. Dynamics of exchange rate of UAH to Euro reflects the environment of international markets where in January-May there was devaluation of USD compared to other world currencies.

From the year beginning, UAH became almost 6% less expensive in respect of Euro. Official exchange rate of UAH to Euro as of 21 July 2006 was UAH 6.38 for Euro 1. Dynamics of the cash Euro exchange rate will mainly depend on the trends of the international currency markets. Despite significant fluctuations during July, from the beginning of the month its rate increased insignificantly – from UAH 6.29/6.41 to 6.33/6.44 for Euro 1.

In June, both the Federal Reserve System and the European Central Bank raised their interest rate (up to 5.25% and 2.75%, respectively.) It is expected that in August the Federal Reserve System will raise the interest rate to 5.5%. Theoretically, this decision should have supported the US currency, but in practice, its positive influence is becoming more and more rare, and currency quotations are rather influenced by publication of economic activity indices.

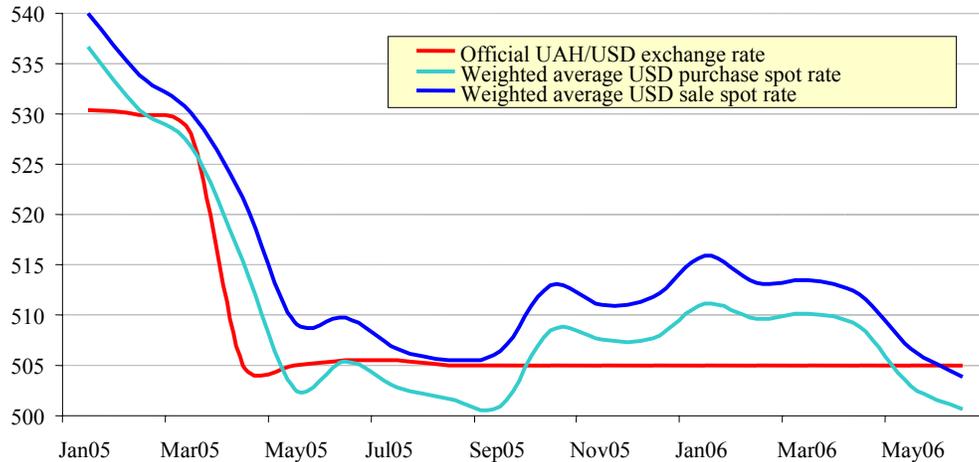


Chart 4. Dynamics of UAH/USD exchange rate in 2005-2006, in UAH for USD 100

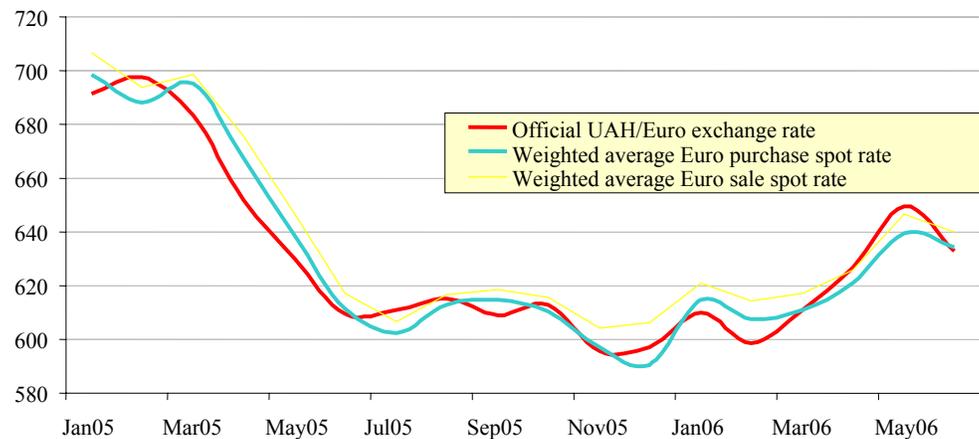


Chart 5. Dynamics of UAH/Euro exchange rate in 2005-2006, in UAH for Euro 100

In the 2nd quarter, growth of deposits has significantly accelerated. If in the 1st quarter, total volume of deposits increased by 2.1%, in the 2nd quarter it was 9.6%. Total volume of deposits from the year beginning increased by 12% (last year – by 26.1%) up to UAH 148.8 billion. Slower deposit growth rates compared to the last year are explained by the fact that last year there were processes of recovery of the banks' resource base after events of the end of 2004.

In time structure of deposits, long-term deposits increased from the year beginning by 21.1% up to UAH 62 billion, and their percentage in total volume of deposits also increased from the year beginning from 38.5% to 41.7% as of the beginning of June.

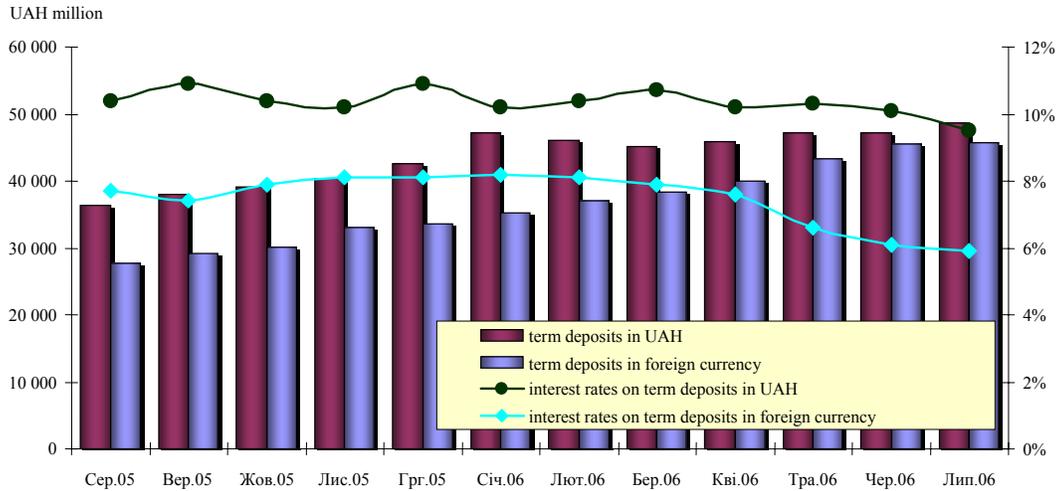


Chart 6. Volumes of term deposits, in millions UAH. Interest rate on term deposits in 2005-2006

Weighted average interest rate on deposits in national currency which was decreasing monthly in the 1st quarter (from 8.1% per annum in December to 7.3% per annum in March), increased in April (with taking into account increased demand for resources) to 7.8% but during May-June got back to March numbers – 7.3% per annum. Weighted average interest rate on deposits in foreign currency had a strong tendency to decrease in January-June, and decreased from 6.9% in December to 5.3% per annum. Integral interest rate on deposits decreased from 7.7% to 6.3% as of the year beginning.

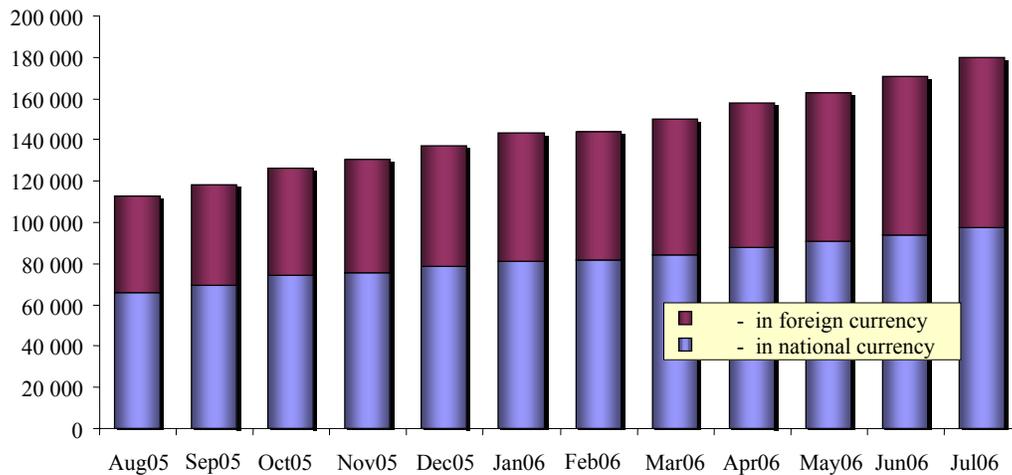


Chart 7. Volumes of all loans in economy by currency in 2005-2006, in thousands of UAH

Unlike the deposits, bank loans were growing faster than last year. As of 1 July 2006, the volume of loans (without yield) in comparison with the year beginning increased by 25.5% up to UAH 177.8 billion (last year – only by 22.8%).

It should also be mentioned that loans in foreign currency were growing faster (by 32.3%) than loans in national currency (20.2%) which is explained by the following:

change of the trends in payment balance (activation of importers who form large demand for loans in foreign currency); structural changes in the banks' resource base in part of accelerated growth of deposits in foreign currency in the domestic market and active fund raising by the banks in the international financial markets; More attractive interest rates on loans in foreign currency compared to loans in UAH in the conditions of a stable UAH exchange rate.

Acceleration of rate of lending compared to the previous year is explained, first of all, by activation of lending to natural persons, volume of loans to them increased by 46.4% up to UAH 48.5 billion (last year – by 34%).

At the same time, the volume of loans to legal entities increased by 19% - up to UAH 129.2 billion (last year – by 20.6%) which corresponds to the current forecasts of the Ministry of Economy regarding reaching this year of GDP growth not less than last year.

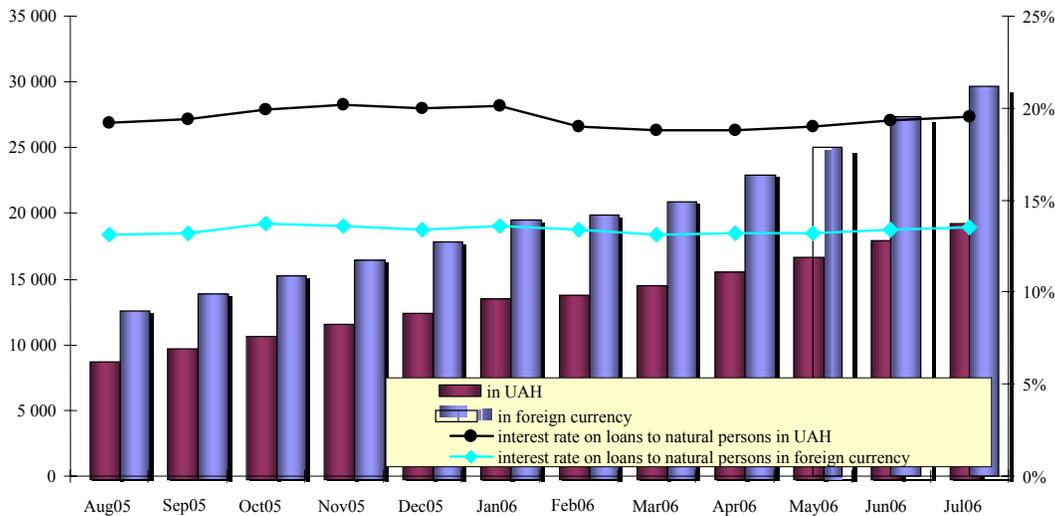


Chart 8. Loans to natural persons in 2005-2006

Positive loan dynamics was registered on the background of revived trend of loan cost decrease – weighted average interest rate on loans in the national currency decreased from 16.4% per annum in December to 15.5% per annum in June. Weighted average interest rate of loans in foreign currency in the conditions of higher demand for such loans was decreasing slower – from 11.7% in December to 11.3% in June. Integral interest rate on loans decreased from 14.6% in December to 13.8% in June.

Personal income

In January-June 2006, nominal personal income increased by 30.8% (for 6 months of 2005 this number was 44% which is explained by high inflation level in the first 6 months of last year – 14.1%) compared to the relevant period last year.

Available income which remains in the households after payment of current income and property taxes and may be used by the individuals for purchase of goods and services increased by 30.1%, and real available income defined with taking into account the price factor – by 20% (price factor: inflation index for 6 months of 2006 – 8.4%).

In June, compared to May this year, nominal personal income increased by 9.8%, and available and real available incomes – by 4%. Available income per one person was UAH 596.3 in June 2006 against UAH 573 in May.

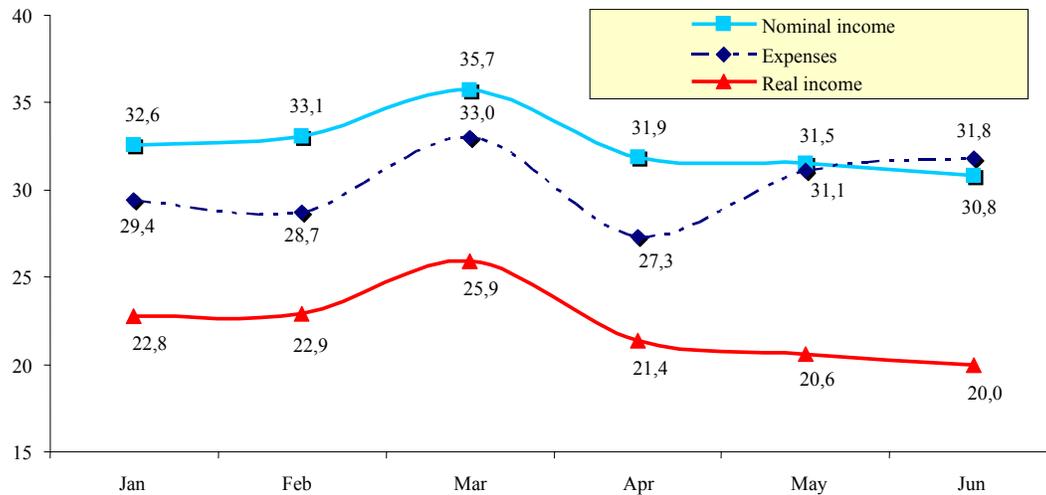


Chart 9. Growth-decline in incomes and expenses of the population of Ukraine in January-June 2006, progressive total as % of the relevant period in the previous year

No changes occurred in the structure of personal income: main part of income consists of salaries (44.4%), as well as social assistance and other transfers (43.4%) which testifies to donation (compensational) nature of the country's social and economic policy.

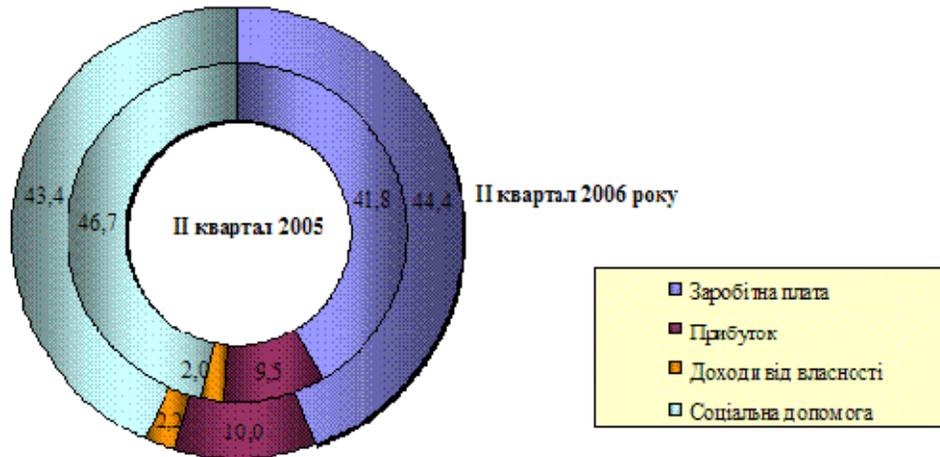


Chart 10. Structure of personal income in Ukraine in January-June 2005-2006, %

Expenses of population were growing faster than income: in January-June this year expenses increased by 31.8% compared to the relevant period of 2005. Analysis of the household expenses structure allows to conclude that life conditions of the population are low because 84.7% is used for purchase of everyday goods and services. At the same time, savings of financial assets (growth of money deposits, securities, loans received) constitute only 7.6% in the structure of expenses, and percentage of investments in financial assets in the structure of expenses decreased in the 2nd quarter of 2006 by 1.3% compared to the relevant period of 2005. According to NBU data, bank deposits of the population increased in the first two quarters of 2006 by 15%.



Chart 11. Structure of expenses of population in Ukraine in January-June 2005-2006, %

Monthly average salary per one full-time employee was UAH 967 in January-June 2006 in average in Ukraine, and this is 33.5% higher than the relevant number last year.

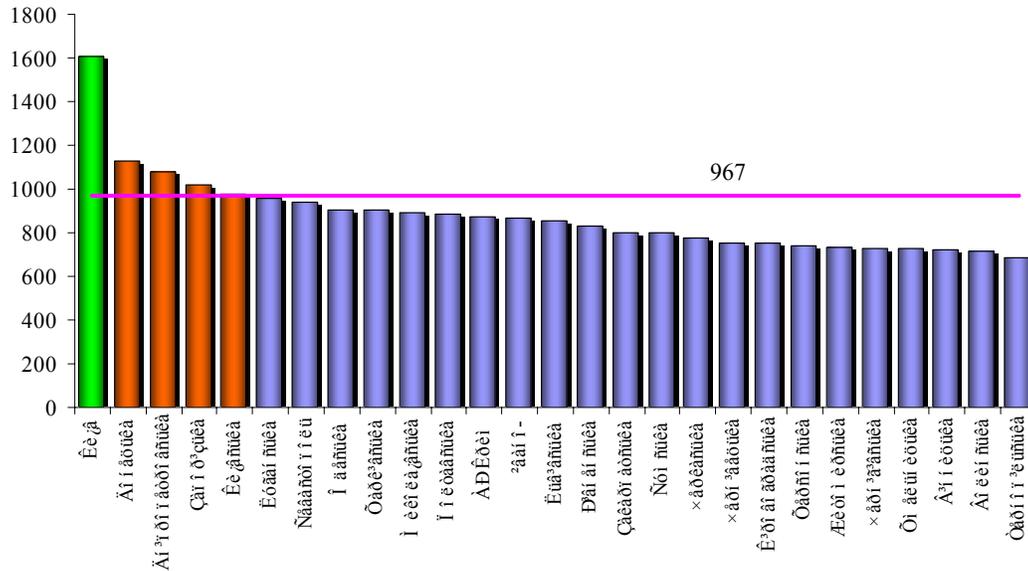


Chart 12. Average monthly salary per one full time employee in January-September 2005, UAH

Statistics reflects significant differentiation in the levels of salaries by regions. The difference between the regions with the highest and lowest salaries – Kyiv and Ternopil region is 2.3 times. Only in Kyiv (UAH 1,605) and 4 regions (Kyiv region – UAH 976, Donetsk region – UAH 1,127, Dnipropetrovsk region – UAH 1,076, Zaporizhya region – UAH 1,020), average monthly salary exceeds the Ukrainian average which is explained by concentration of the industrial and financial capital in these regions. At the same time, in the Western regions where the level of official salaries is the lowest, 25-30% of able-bodied population work abroad. That is why the actual level of household incomes significantly differs from the official data.

In respect of improvement of the social standards and living standards of population, amount of minimum salary was increased from 1 July 2006 from UAH 350 to UAH 375. But, according to data of the Ministry of Labor and Social Policy, about 6.3% of employees have salaries lower or on the level of legislatively established minimum amount. An undeniable fact which confirms non-correspondence of social guarantees established by the state to economic reality is the followings: the minimum subsistence level in Ukraine in 2006 is UAH 496, therefore, it exceeds the amount of minimum salary. The minimum subsistence level calculated by specialists of the State Statistics Committee for different regions is between UAH 482 and 567. It should be noted that 2006 budget envisaged an increase of minimum salaries and salaries up to UAH 400.

Housing construction in Ukraine

In January-June 2006, developers of all forms of ownership constructed 3,189,500 sq.m. of total housing area in Ukraine which is 10.2% higher than last year.

Kyiv

In the first six months of 2006, 604,800 sq.m. of housing was constructed in Kyiv which is 6.7% more than in the relevant period last year; of which – 475,800 sq.m. (78.7%) was constructed with funds from the population, and 264,000 (21.3%) – to the order of the state administration. No changes in the structure of finances were registered.

According to data of the Kyiv State Administration, the annual program of construction (in part of housing constructed in the capital) was fulfilled by 46.5% as of 1 July 2006.

Real estate market: price situation

Scenario for development of real estate in Kyiv in the first six months of 2006 was a bit different from situation in 2005. The beginning of 2006 was characterized with stagnation in the Kyiv real estate market which was accompanied by slight decrease of prices for inexpensive housing and insignificant raise of prices for business class housing in the districts adjacent to downtown. In February, a shock occurred in the Kyiv primary real estate market as a result of investment fraud “Elita-Center” but this event did not have significant impact on price of a square meter, it only shattered confidence to small companies-developers and stimulated initiatives to regulate the system of parcellation of land plots for construction and improvement of mechanisms for financing of housing construction by individual investors.

Spring was marked with activation of the real estate market. When the ungrounded winter forecasts for a fall in the Kyiv real estate market and expectations in the conditions of unclear political situation did not come true, potential buyers who were postponing purchase of housing from fall-winter 2005 came to the market and this caused growth of prices according to the growing demand. Beginning from March 2006, prices for residential real estate, both in the primary and in the secondary markets were constantly growing by 1.5-2% a month, except some categories of expensive housing where growth-decline of prices in some months were 3-5% (these separate cases are fixed by the real estate agencies but do not influence cardinally the general price position in the market).

Primary market

In 6 months of 2006, prices for housing of the Kyiv primary market increased in average by 5%. As of 1 July 2006, the average suggested price of 1-room apartments was USD 1,694 per sq.m. of living space, 2-room apartments – USD 1,726 per sq.m., 3-room apartments – USD 1,599 per sq.m., 4-room apartments – USD 1,599 per sq.m.

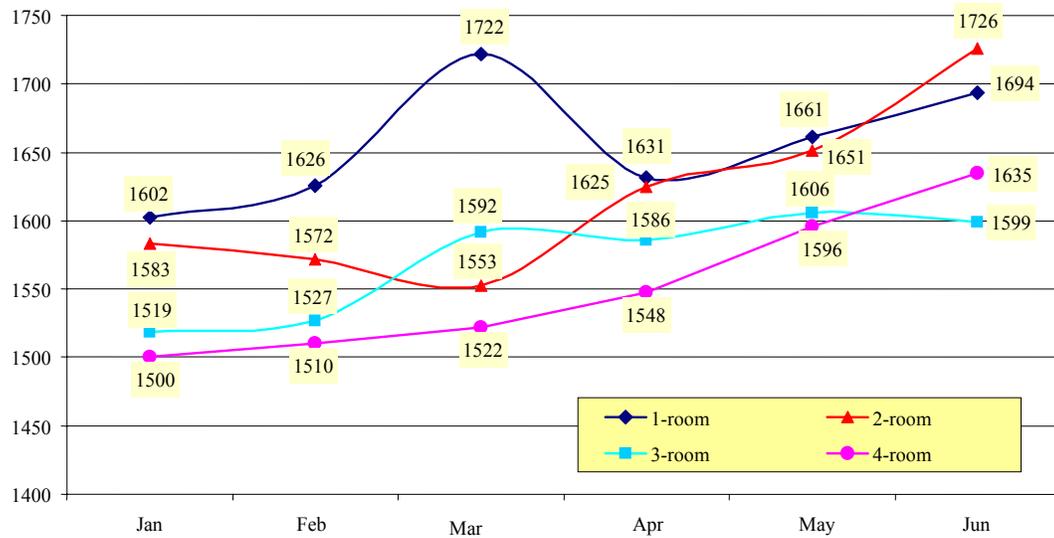


Chart 13. Dynamics of price of 1 sq.m. of housing in the Kyiv primary market in the first 6 months of 2006, USD

Source: www.rielt.kiev.ua

From the beginning of 2006, price for 1-room apartments grew by 5.7%, 2-room apartments – by 9%; 3-room apartments – by 5.2%; 4-room and more – by 9%. The highest activity in the primary housing market was registered in May-June, in particular, in the last two months of the first half-year, total growth of the announced suggested price was 3.8% for 1-room apartments, 6.1% - for 2-room apartments, 0.9% - for 3-room apartments, and 5.6% - for 4-room apartments. Therefore, the most popular are 2-room apartments which is different from the situation of previous years when the most popular were 1-room apartments.

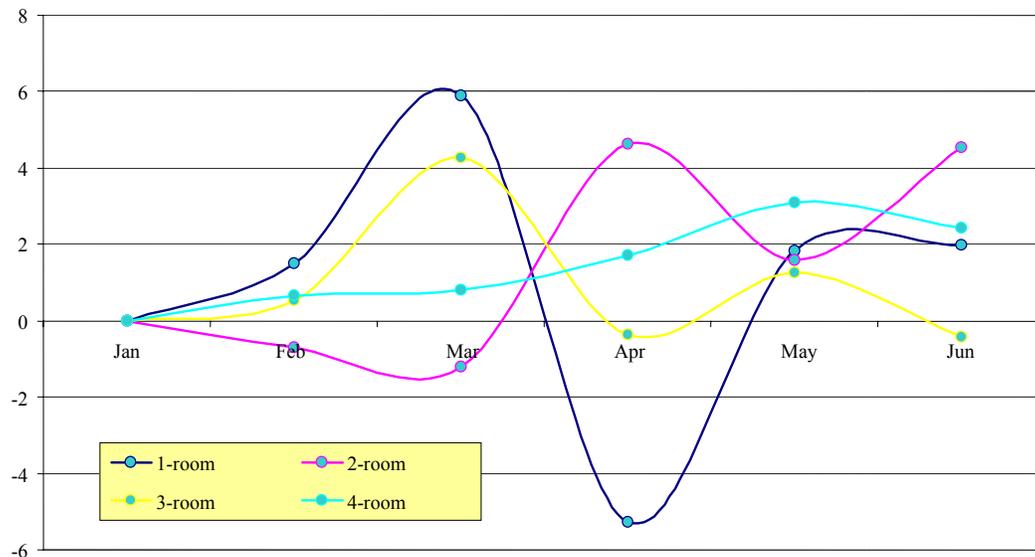


Chart 14. Increase-decrease of price of 1 sq.m. of housing in the Kyiv primary market in January-June 2006 (% of the previous month)

Secondary market

In 6 months of 2006, average price of housing in the Kyiv secondary market grew by 11%. In June 2006, purchase price of 1-room apartment was USD 1,671 per sq.m., 2-room – USD 1,758 per sq.m., 3-room – USD 1,762 per sq.m., 4-room – USD 1,938 per sq.m.

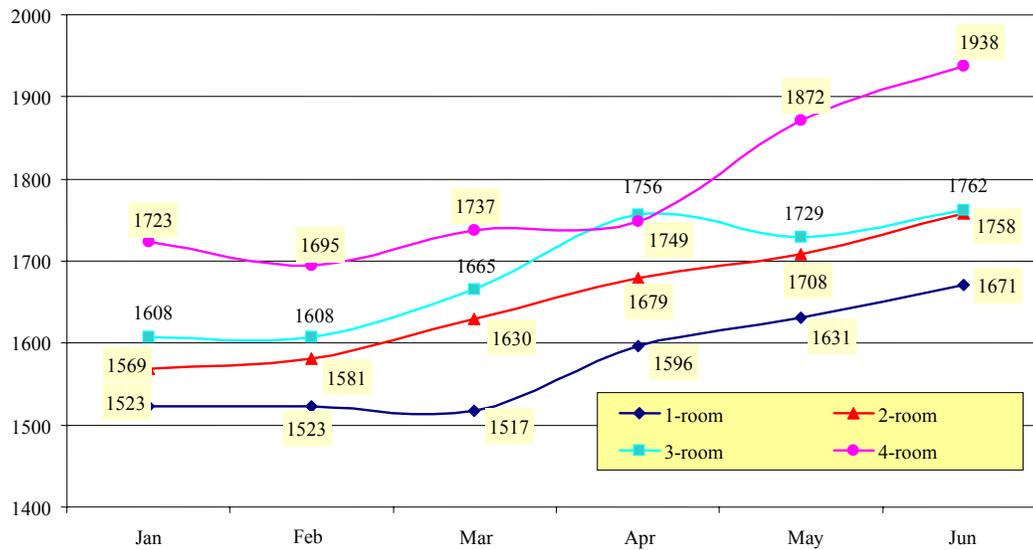


Chart 15. Dynamics of price for 1 sq.m. of housing in the Kyiv secondary market in the first 6 months of 2006 року, USD

2- and 4-room apartments had the highest rate of growth – 12-12.4% in the first half-year, growth of prices for 1- and 3-room apartments was in average 9.5%.

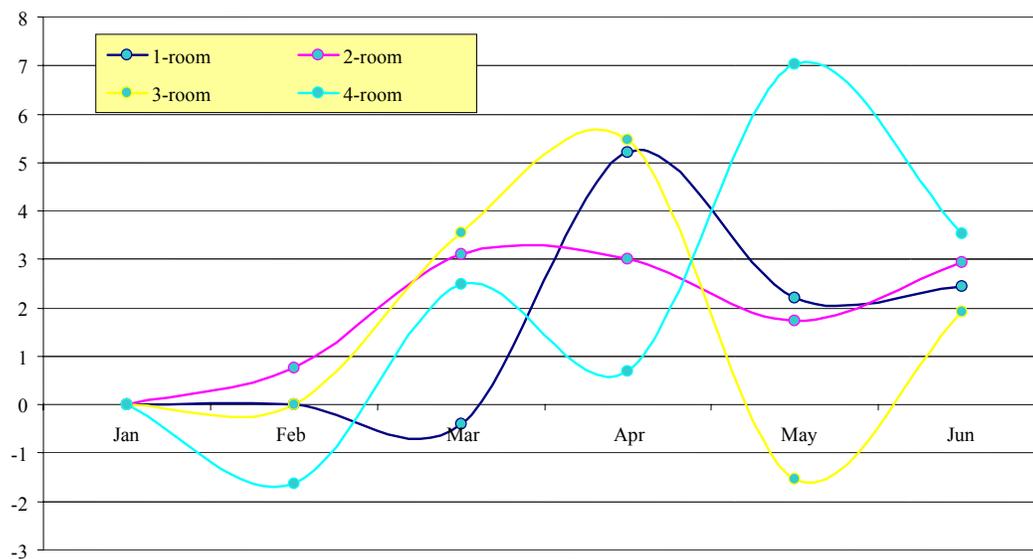


Chart 16. Increase-decrease of price of 1 sq.m. of housing in the Kyiv secondary market in January-June 2006 (% of the previous month)

An interesting observation is that the price of 1 sq.m. of housing in the primary market is less when apartment with more rooms is being purchased-sold. In the secondary market, situation is the opposite, in apartments with more rooms, price of 1 sq.m. is higher. This is explained by the fact that in the secondary market 3- and 4-room apartments belong to the categories of elite spacious apartments in old houses located mostly in central part of the city, i.e. the most expensive real estate in Kyiv (do not belong to “khrushovka” type).

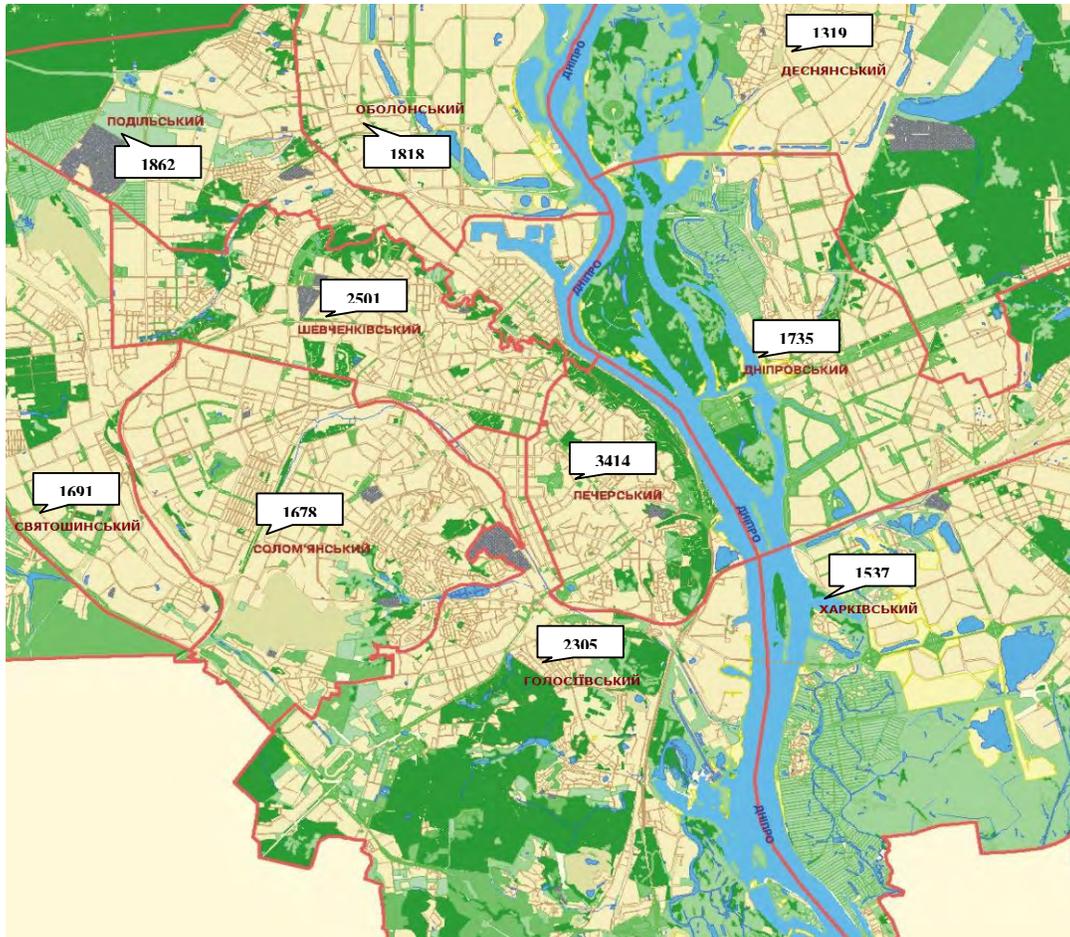


Chart 17. Average price of 1 sq.m. of housing in Kyiv at the beginning of July 2006, USD

Value of square meters in the capital is sharply differentiated depending on location of apartments. Traditionally, the most expensive are apartments which are located in the downtown Kyiv, in Pechersky, Shevchenkivsky and Golosiivsky districts, the least expensive housing – in Desnyansky, Svyatoshinsky and Darnitsky districts. Price difference between the most expensive and the least expensive housing is 3.2 times.

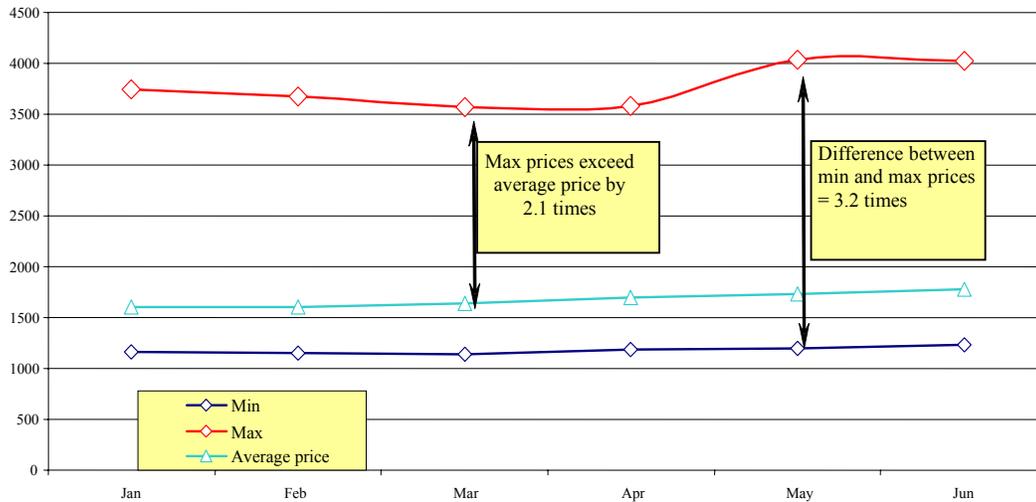


Chart 18. Max, min and average prices for housing in the Kyiv secondary market, USD

In general, development of the Kyiv real estate market in the last 3 years may be viewed as a unique social and economic phenomenon because the current pricing situation is absolutely inadequate in respect of the level of economic well-being of the Ukrainian citizens in general. The key characteristics of the Kyiv housing market – prices per square meter of housing are unreasonably high.

When analyzing press materials and comments of different participants of the real estate market, two main viewpoints explaining unrealistically high housing prices in Kyiv can be pointed out:

- High prices for residential real estate are caused by low level of competition between the developers in the housing market. Significant risks which appear due to poorly organized and non-transparent system of permits and documentation for construction, on the one hand, make the housing sector of Kyiv unattractive for foreign construction companies, on the other hand, - small Ukrainian developers are re-oriented to the regional markets. At the same time, construction companies operating in the Kyiv market have possibility to regulate both the proposal and prices for housing. Normative price of 1 sq.m. of housing in Kyiv which includes actual cost of construction and planned profitability in the amount of 7%, is today UAH 3,216 (USD 636), while average price of 1 sq.m. of housing in the primary market is USD 1,500-1,600.
- The experts believe that one of the reasons of price wave for Kyiv residential real estate is artificially overvalued speculative demand for housing which is formed by a number of real estate agencies and individuals for whom the difference between purchase and sale price of apartments is the source of excess profit. For example, according to different evaluations, 20-30% of apartments in the primary market are purchased for their further re-sale and receipt of a speculative income.

Limited proposal is combined with exaggerated demand which ultimately forms the seller's market, and the seller is able to dictate prices.

According to estimates of real estate specialists, total growth of prices for Kyiv residential real estate will be 20-25% by the end of 2006 (in 2005, it was 50-60%).

Noticeable stabilization in the real estate market is caused by balancing of demand and supply of housing which is caused, on the one hand, by shortening of bank mortgage lending programs and increase of interest rates for housing loans and, on the other hand, there is no longer speculative demand for square meters in the capital, i.e. the buyers have the wait-and-see attitude taking into account the fact that the sellers are not going to lower the prices.

Among the factors which in future may influence price fluctuations in the housing market in fall 2006, the following should be noted:

- Seasonal increase of business activity – traditionally, fall months are the period of activation of real estate buyers which is confirmed by increased number of visitors viewing proposals on web-pages of real estate agencies, and the number of closed purchase and sale deals on housing.
- Initiative of the Kyiv state administration regarding increase by the developers of the portion of constructed apartments transferred to the fund of social housing up to 20%. It should be mentioned that today the construction companies transfer 5-10% of housing to the city free of charge (on land plots parceled for construction prior to 1 January 2006) and 7-12% (on land plots parceled for construction after 1 January 2006). The developers believe that in its economic essence this is sort of a tax on construction activities, and it lowers profitability of construction. This means that in case of approval of this decision at the sitting of the Kyiv State Administration in September 2006, filling of city social housing fund may turn for the rest of the citizens into growth of prices which will compensate additional deductions for the developers.
- Increase of prices for construction materials and energy carriers is 15% from the year beginning. In case of further forecasted increase of prices for gas and electric energy, price of 1 sq.m. will grow in order to preserve profitability of construction on the same level.

Specific features of the Kyiv real estate market are immense influence of psychological component on dynamics of demand and supply of housing. Today in Ukraine, and particularly in Kyiv, there is a huge deferred demand for housing which is based on expectation of fall of prices. At the same time, psychology of consumers to whom it is important to forecast the situation became the grounds for manipulations, for instance, there were attempts in the market to create artificial demand with growth of prices for real estate, when historical statistical data on prices for apartments in Internet data bases of real estate agencies were replaced with a new information with higher prices. Thus, the side of supply is trying to create an impression of further significant growth of prices and, therefore, to activate demand, thus leveling expectations on fall of prices.

In general, the Ukrainian real estate market may be defined as non-transparent and non-organized. According to 2006 Real Estate Transparency Index research conducted annually by the international company Jones Lang LaSalle, real estate markets in the countries of Central and Eastern Europe and Russia became more transparent in 2006. But Ukraine still is not in the list of 56 countries participating in the research. Completion in the 2nd quarter of 2006 of the process of compiling of housing classification scale in Ukraine under the auspices of the Ukrainian Construction Association became an important event for increase of transparency level in the national real estate market. The new classification envisages distribution of housing into the following five categories:

- Social class
- Economy class
- Business class
- Premium
- Deluxe

Attributing of residential real estate to a certain class is defined on the basis of 7 groups of parameters, including: location of a house in the city, construction and technical characteristics of a house, level of land improvement, level of external infrastructure, material and equipment used in construction, technique and systems of building upkeep.

Key objective for adoption of the unified classification is division in the consumer's understanding of various formats of the residential real estate which will allow to evaluate housing objectively and to establish prices for this. Attributing housing to a certain class will be the quality standard. Implementation of the classification will also become the only basis for clear and objective analysis of real estate prices. But according to optimistic forecasts of the designers, full transfer of real estate market to the new system of housing classification will take place only in 3-5 years.

Getting back to the key problem of the national real estate market – problem of overestimated prices, - we believe that main efforts should be concentrated on the following directions:

- Establishment of transparent rules, in particular, ensuring clearly outlined procedure for parcellation of land plots for construction, improvement of the system of permits and documentation for construction which will make the market attractive for coming of foreign construction companies and investors.
- Regulation of the speculative component of demand for housing through introduction of tax on the purchase and sale transactions in housing.
- Development of the system of housing mortgage lending towards liberalization of the conditions for housing loans to population.
- State subsidy programs for mortgage and construction of social housing.

The specialists believe that final stabilization and decrease of prices in the real estate market can be expected only when there will be 40-45 sq.m. of housing per one city resident. Right now, this number in Ukraine is 22 sq.m., in Kyiv – 23 sq.m.

Regional markets

Lugansk is an absolute leader in rates of growth of the prices for housing – in the last three years, housing became 300% more expensive here. On the background of other regions where prices in the first 6 months of 2006 were frozen or demonstrated insignificant growth, housing in Lugansk went up 50% compared to the year beginning. Local realtors believe that key reasons for such quick price dynamics are active migration processes through Lugansk from Kazakhstan and Russia, complete lack of the primary market in the region, and active transfer of apartments from the housing fund to business in the conditions of deficit of commercial real estate objects.

Price of 1 sq.m. in the downtown Lugansk is USD 600-800, in the uptown it varies between USD 250 and 550 for 1 sq.m. depending on the class of housing.

Housing prices in **Lviv** increased from the year beginning by 10% (according to Lviv Association of Real Estate Market Participants). Price of housing depends on comfort of the apartment and prestige value of the district. Average price of 1 sq.m. is USD 1,100 in central districts, and USD 700-800 in the uptown.

Table 1. Prices of housing in the regions of Ukraine as of 1 July 2006

Region	Primary market						Secondary market					
	Asking price, \$/sq.m.						Asking price, \$/sq.m.					
	Central districts			Outskirts			Central districts			Outskirts		
	Min	Aver.	Max	Min	Aver.	Max	Min	Aver.	Max	Min	Aver.	Max
Western region												
Ivano-Frankivsk	500	550	600	490	520	550	580	640	700	300	500	640
Lviv	715	900	1400	610	700	850	800	1100	1300	650	700	800
Rivno	550	600	650	470	520	550	500	650	700	450	480	500
Ternopil	560	650	900	500	550	600	700	800	1200	600	650	700
Khmelnitsky	560	700	800	500	570	650	680	860	1000	350	500	680
Chernivtsi	650	800	960	500	650	700	550	800	1000	440	480	550
Northern region												
Zhytomir	550	620	700	350	400	550	660	730	800	350	550	600
Sumy	600	700	800	400	550	650	500	600	700	360	400	500
Chernigiv	500	550	600	450	500	530	500	650	700	350	450	500
Central region												
Vinnitsa	550	640	700				600	700	800	430	450	550
Dnipropetrovsk	760	1200	1850	600	730	800	870	1000	3587	313	600	680
Cherkasy	500	750	1200	400	650	750	550	700	900	300	400	500
Eastern region												
Donetsk	960	1200	1600	600	700	900	950	1200	1400	550	580	600
Kharkiv	800	1300	1800	600	800	950	750	950	1400	550	600	680
Southern region												
Zaporizhyya	630	730	830	535	670	800	600	725	850	350	600	650
Odesa	1300	1600	2500	700	850	1000	110	1650	2500	720	850	900
Sevastopol	800	1000	1400	600	750	900	900	1100	1450	500	550	600
Yalta	2300	2400	5500	900	1200	2200	150	1700	2100	800	950	1200
Resort villages of Velyka Yalta	700	900	1300	700	900	1150	680	800	1150	680	750	1000

In other oblast centers of the Western region, prices for real estate are a bit lower. In **Ternopil**, average price level is USD 800-900 per sq.m., elite housing is valued at USD 1,200 per sq.m. at a minimum, but some developers may offer apartments without finishing in the uptown at USD 600 per sq.m. In average, prices for 1-room apartments are USD 30,000-32,000, 2-room apartments – 34,000-45,000. Most of the buyers prefer housing of the primary market.

Lutsk also tried to catch up with other cities of Ukraine in housing prices: while in summer 2005 average price of 1 sq.m. of housing was USD 400, now it is USD 600. 1- and 2-room apartments in the new houses which fit into the category of social housing are in the biggest demand. A good 1-room apartment costs USD 25,000, 2-room – 35,000.

In the last 6 months, situation is stable in **Ivano-Frankivsk** real estate market. While in May 2006 prices in the primary market were unchanged, in June price of apartments increased already by 1.67%, up to USD 613 per 1 sq.m. In the secondary market, always popular with the buyers are 1-room apartments: prices for 1-room apartments increased in May-June by 2.52-4.33%, respectively. Average value of 1 sq.m. of housing in the secondary market varies between USD 660 and 700. Further development of this regional real estate market is unclear. Until recently, main buyers were people who work abroad and were actively buying apartments in Ivano-Frankivsk, but now when prices for Ukrainian real estate are equal to prices of housing abroad, most of the people working abroad prefer to buy real estate there. This caused some concerns in the city primary market where about 50 construction companies are represented, and they are introducing different advertising campaigns, bonus programs on stimulation of sales, though they are not planning to lower the prices yet.

Unlike the unusual but stable growth of prices in the regional markets, in **Kirovograd**, the price for housing decreased by 10% in the first 6 months of 2006 and is USD 370-380 per 1 sq.m. in average. In the number of housing purchase and sale contracts, 75% of contracts are 1- and 2-room apartments which are in the highest demand, 60% of all apartments offered for sale are 3- and 4-room apartments. The key factor that moves prices for residential real estate in Kirovograd is banking mortgage policy, in particular, increase of interest rates on housing mortgage loans at the beginning of summer 2006 caused decrease of prices for apartments. Average price of 1-room apartments is USD 18,000-20,000, 2-room – USD 20,000-25,000 in districts adjacent to downtown, and USD 22,000-40,000 in downtown area, 3-room – USD 50,000-80,000 in the downtown, USD 28,000-40,000 in districts adjacent to downtown, and USD 22,000-30,000 in the uptown.

In 6 months of 2006, housing in **Kherson** went up 10-12% from USD 500 to USD 550-560 per 1 sq.m., which is connected with relative accessibility of mortgage loans. For example, 50-75% of housing is purchased in the secondary market with funds from bank loans, and 10-20% of apartments are purchased for re-sale or as investment of free funds. Average value of 1-room apartments is USD 20,000, 2-room – USD 21,000-25,000, 3- and 4-room – USD 32,000-35,000.

Prices in the cities-millionaires continue to grow following development dynamics of the Kyiv real estate market. Increased growth of prices for housing was registered in **Kharkiv** in the 2nd quarter of 2006. While in January-March 2006 the situation could have been described as stable (growth of prices was 1-3%), a noticeable activation of the market was registered in the next three months. Number of contracts increased by 50% from the year beginning. Just in the 2nd quarter of 2006, value of business class housing increased by 6.7% up to USD 955 per 1 sq.m., economy class – 2.5% (5.7% from the year beginning) up to USD 607 per 1 sq.m., premium class – 1.5% (2.6% from the year beginning) up to USD 1,411 per 1 sq.m. By the end of 2006, the experts expect increase of prices for Kharkiv real estate by another 10%.

Price of housing in **Dnipropetrovsk** increased by 15% in average from the year beginning. The key factors supporting stable growth of prices are insufficient supply of good quality and new housing in the market, growth of personal income and active development of mortgage lending in the region. As of the end of June 2006, weighted average price of 1 sq.m. was USD 863, minimum price – USD 313, and maximum price – USD 3,587.

Prices for housing are intensively growing in **Chernigiv**: growth of prices for apartments in the secondary market was 25% in 6 months of 2006, in the primary market – 5-10%. The most frequent is purchase of inexpensive 1- and 2-room apartments at USD 18,000-25,000 and USD 22,000-36,000, respectively. At the same time, quite a significant portion of apartments in the primary market remains not purchased because of big spaces and comparatively high prices for new housing.

The situation was stable in the residential real estate markets of **Sumy**, **Zhytomir** and **Chernivtsi**, and no significant price changes were registered there.

In general, common features for the regional real estate markets are high level of dependence of demand for housing (and, therefore, of prices) from accessibility of housing mortgage loans taking into account low level of personal incomes, formation of demand under the influence of migration processes, as well as deficit of good quality new housing, i.e. practical lack of the competitive primary market.

Housing mortgage lending

Note

The information used in this section was provided by 45 banks in a poll held in August 2006. According to our estimates, the banks that have participated in the poll represent over 96% of mortgage market.

General situation in the market

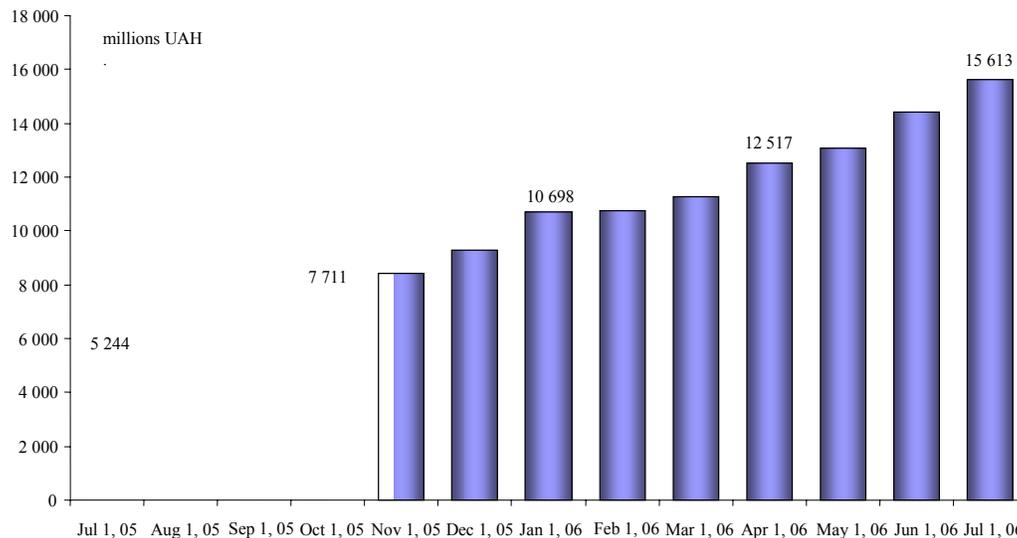


Chart 19. Outstanding mortgage loans in 1st half of 2006, in millions UAH

Despite the heat and the attempts of some regulators to make improvements, banks continue active operation on the mortgage market. Loans are being made and the mortgage market is growing and increasing its volumes incessantly. In the second quarter of last year, total lending was UAH 1.8 billion versus UAH 3.1 billion in the second quarter of this year. Although beating or at least maintaining the growth rates of mortgage lending is obviously very unlikely, the mortgage market is advancing steadily. The activity of banks in the mortgage market can be compared to a train, which finally gained speed and can only be stopped by inappropriate human interference.

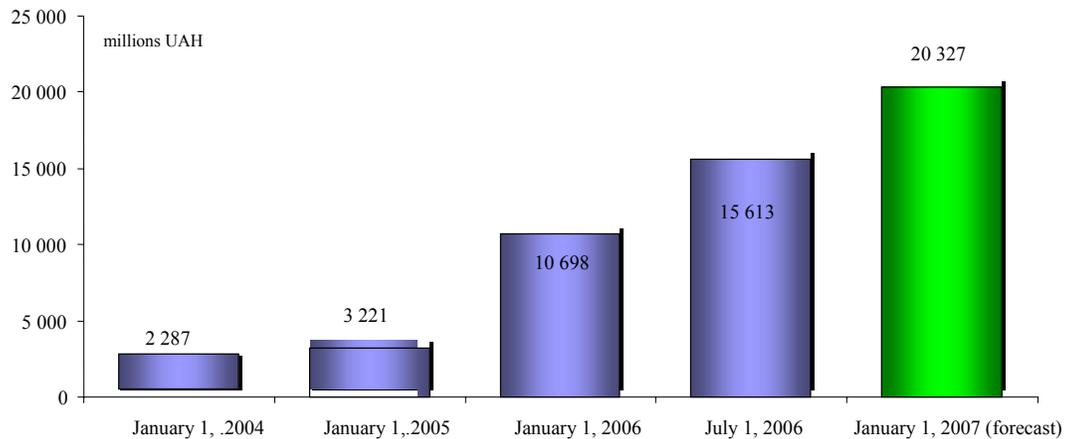


Chart 20. Outstanding mortgage loans in 2004-2006, in millions UAH

As of July 1, 2006, the general amount of indebtedness for mortgage loans reached UAH 15,6 million. The growth rates compared to the beginning of the year were 46%.

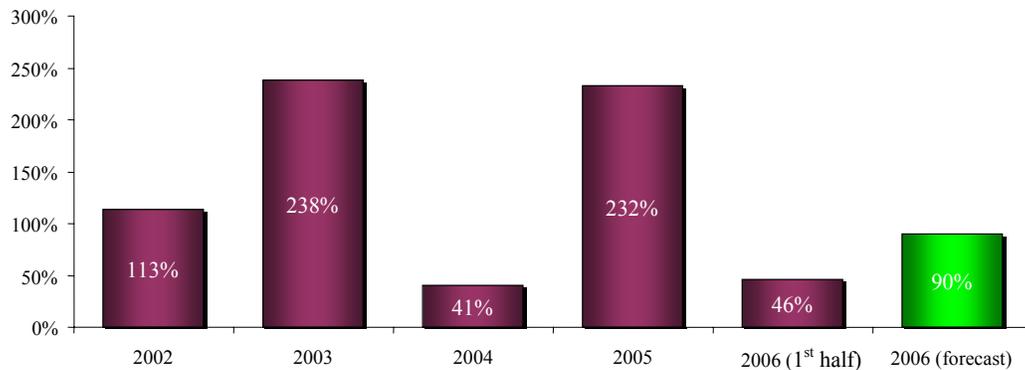


Chart 21. Growth of outstanding mortgage loans in 2004-2006, % versus previous year

The share of mortgage loans in the general loan portfolio is increasing steadily – in July, 2005 - 4.8 %, in January 2006 – 7.5% and in July 2006 – already 8.7%. Although the growth is insignificant, the general tendency demonstrates that mortgage lending is one of the priority areas in banking.

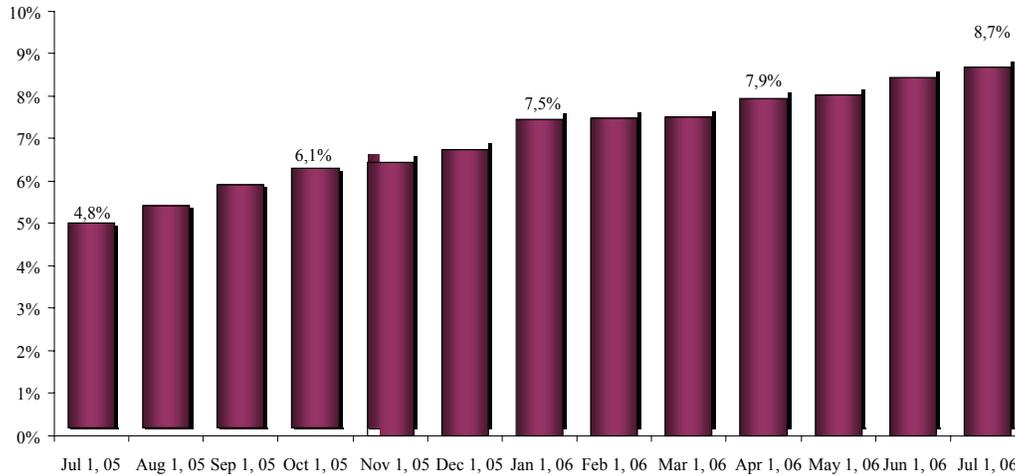


Chart 22. Share of mortgage loans in the general loan portfolio of commercial banks in the first half of 2006

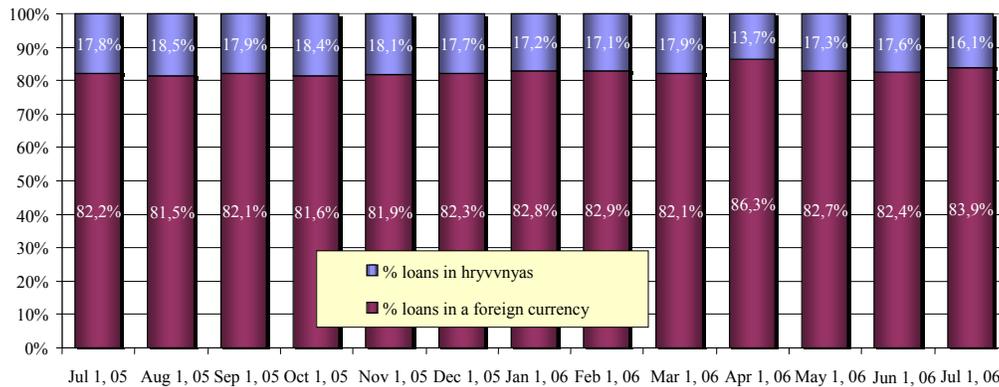


Chart 23. Structure of mortgage loans by currency in the first half of 2006, % of the total volume

Despite the attempts to persuade borrowers to take loans in the national currency, the share of foreign currency loans is increasing. The aggregate share of foreign currency loans is 45.7 %, however the share of foreign currency loans made to individuals is already 60.4%. As of beginning of July, this figure is still higher for mortgage loans - 83.9 %. This supports the idea that people do not have long-term confidence in hryvnya.

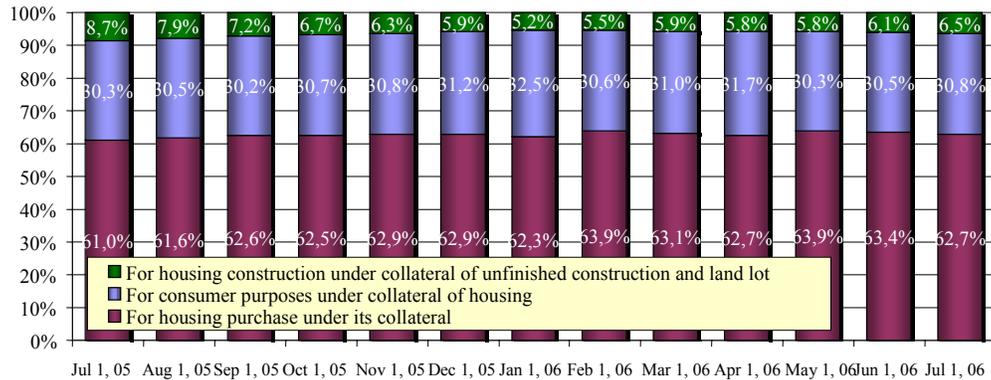


Chart 24. Structure of mortgage loans in the first half of 2006 as for to the types of loans, % of the total volume

There are no sufficient changes in the structure of mortgage loans with respect to *the amount of loans granted*. As of the end of 2005, the share of housing loans was 62.4 %, and as of the beginning of July, 2006, it did not change significantly - 62.7 %. This type of loans is still the most attractive to banks. The share of loans for private housing construction continues to increase.

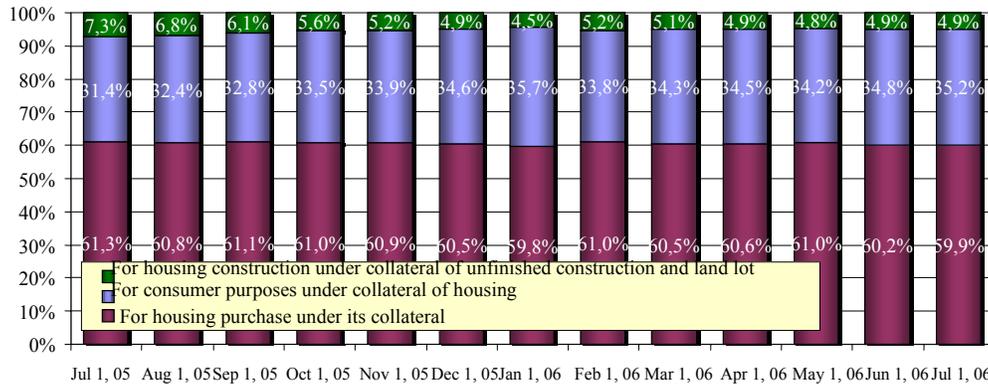


Chart 25. Structure of mortgage loans in the first half of 2006 according to the purposes of loans, % of the total volume

There are also practically no changes in the structure of granted mortgage loans. More than half – 60 % of overall amount of mortgage loans were granted for housing purchase. The share of these loans remains stable during last 12 months. The growth of consumer loans demonstrates that the average amount of these loans is growing, but not so actively as the average cost of other loans do.

The average amount of indebtedness for mortgage loans increased faster than the cost of housing. In the end of June, 2006, the average amount of indebtedness for housing loans was approximately UAH 104 thousand, that is 15 % exceeding last year's showing. The indebtedness for private housing construction loans increased the way higher, in particular they increased 30 % during six months and their average amount was UAH 130 thousand.

If we take the average amount of housing loans granted during the second quarter of the current year, we will see that it makes approximately UAH 180 thousand. The average amount of mortgage loans for housing purchase given by some banks is more than UAH 600 thousand. The amount of loans granted for house purchasing in the primary market is still higher, exceeding UAH 310 thousand. The biggest loans are given for private housing construction, their average amount exceeding UAH 300 thousand and the maximum amount exceeding UAH 1million.

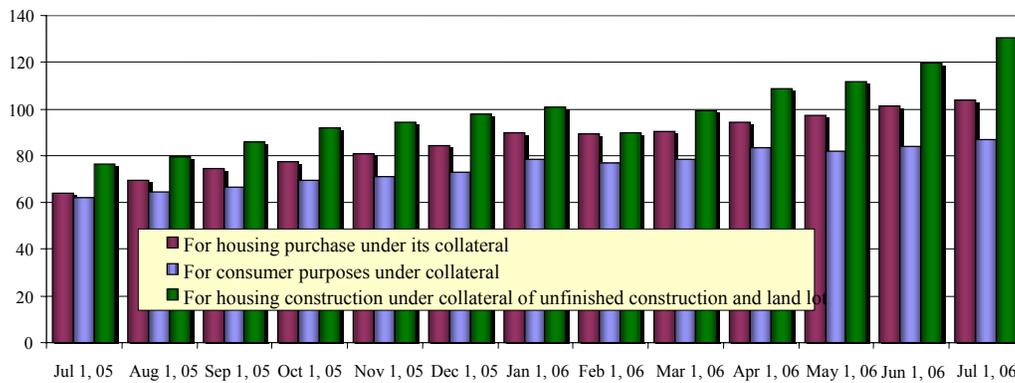


Chart 26. Average amount of indebtedness for mortgage loans in the first half of 2006, in thousands UAH

The share of loans granted in the primary market is increasing, 6.3 % of housing loans were given for purchasing houses in the primary market in the beginning of the year, but in half a year this number increased 8.3 %. Such growth is happening on the background of slight increase of the number of banks in the primary market and decrease of the loans granted for new housing. The growth is happening due to the increase of the amount of loans. With regard to our assessments, the average amount of loans in the primary market increased approximately twice during the first six months of the current year. Five top mortgage lenders banks are the biggest lenders in the primary market.

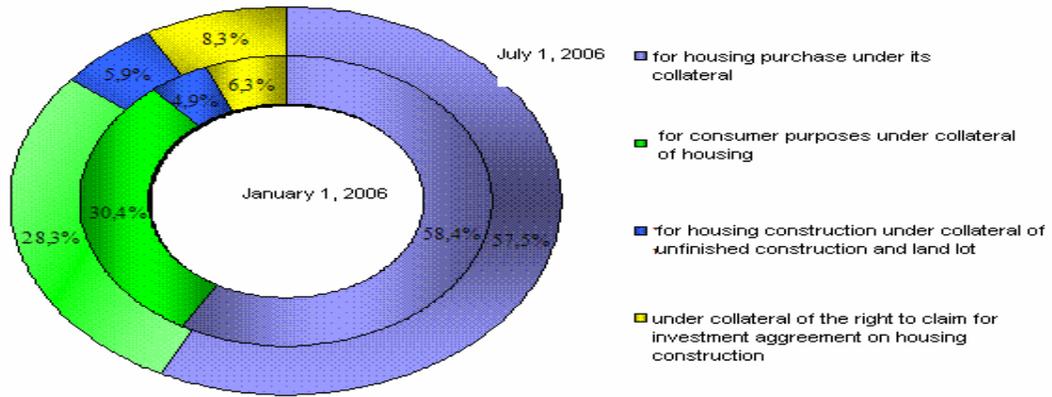


Chart 27. The structure of housing loans as of July 1, 2006, % of the total volume

Bank performance indicators

In the first half of 2006, there was a tendency to decrease the amount of mortgage lending by medium size banks. Not all banks are able to settle liquidity problems and meet the requirements of the regulator. With regard to our assessments, the number of banks in the mortgage market amounts to approximately 90. The market remains highly concentrated, 86 % of mortgage market accounts for the first ten banks, with the first five banks controlling more than 67 % and the first 15 banks given in the chart below – more than 92.8 % of the market. 21 banks have mortgage portfolio for more than UAH 50 million, with the portfolio of 16 of them increasing UAH 100 million.

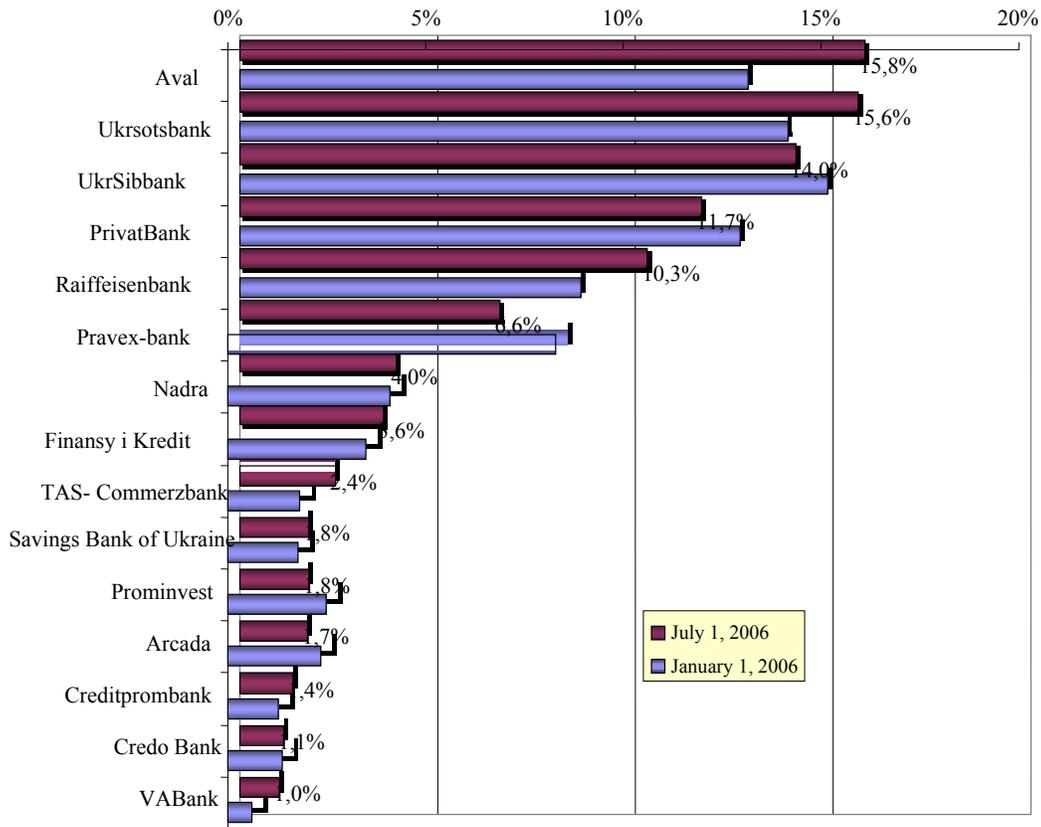


Chart 28. Market share of 15 biggest banks in the mortgage loans market as of July 1, 2006, %

The leader of the new quarter is Bank Aval, though the difference between the first and second place is quite insignificant – 0.15 % of the market volume. Therefore, we congratulate Ukrsotsbank, who managed to remain on the top of mortgage market. Nevertheless five top leaders remained the same during last twelve months: Aval, Ukrsotsbank, UkrSibbank, Privat Bank, Raiffeisenbank.

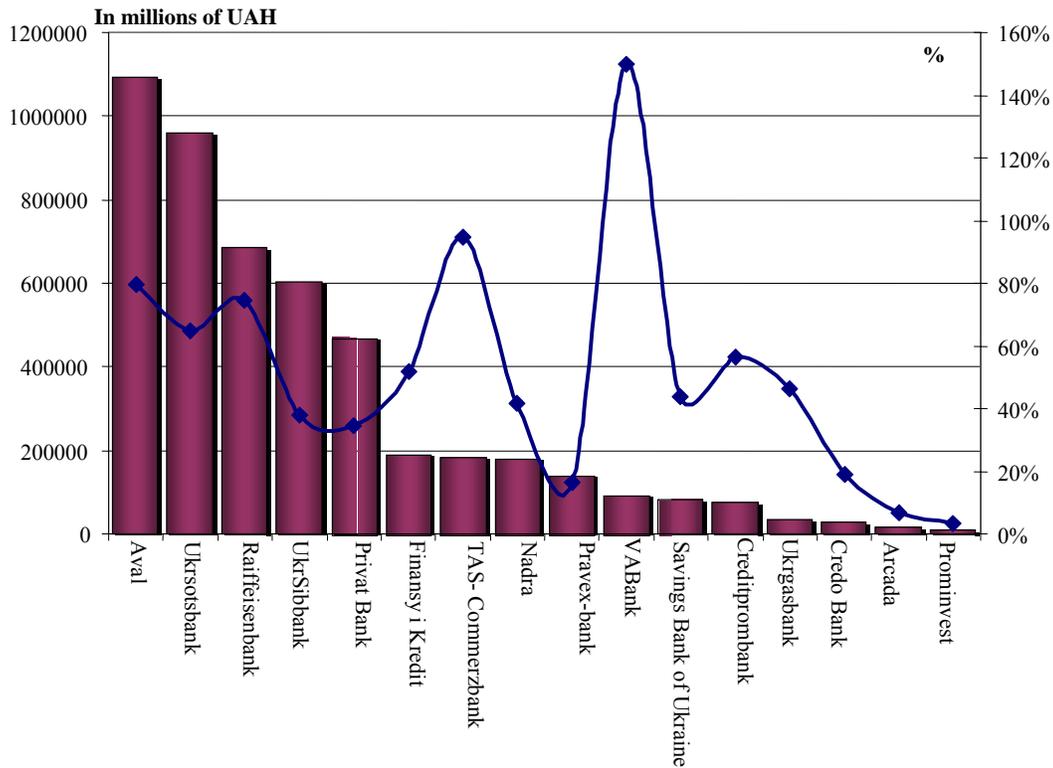


Chart 29. Dynamics of 2006 changes in the mortgage portfolio of banks with a portfolio over UAH 100 million

Whereas the leaders of mortgage lending are increasing their mortgage portfolio by approximately UAH 100 million per month, in this report we decided to show the growth rates only of those banks whose mortgage portfolio exceeds UAH 100 million.

Among the banks, Aval was the leader in terms of absolute growth in the first half of the year, having the increase of more than UAH 1 billion. Ukrsotsbank almost reached UAH 1 billion - its growth was UAH 959 in the first half of the year.

Va-Bank is the growth leader among banks with a mortgage portfolio over UAH 100 million - during the six months the bank managed to increase its mortgage portfolio 2.5 times.

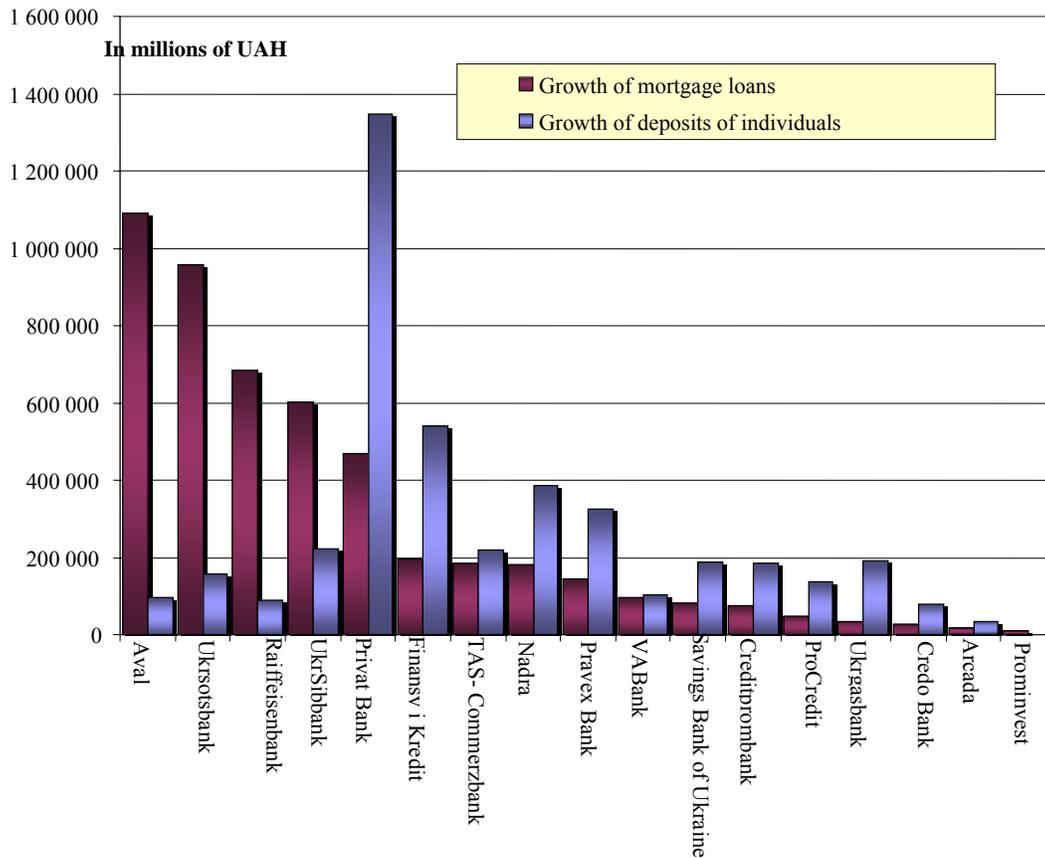


Chart 30. The dynamics of growth of mortgage loans and term deposits of individuals in 2006, in thousands UAH for banks with a mortgage portfolio over UAH 100 million

Analyzing the indicators of the banks who are the biggest mortgage lenders it is hard to believe that term deposits of individuals are the biggest source of financing mortgage creditors. As the chart demonstrates, the growth of deposits of individuals for Ukrainian banks only exceeded the growth rates of mortgage loans.

Housing mortgage lending terms

In the second half of August 2006, UNIA specialists conducted a survey of basic lending terms in the housing mortgage market. Twelve banks, the largest mortgage lenders, were surveyed. The survey was conducted over the telephone; information regarding mortgage lending posted on banks' official websites was checked for fairness and accuracy.

The list of 12 banks, the largest mortgage lenders: Ukrsibbank, Ukrsotsbank, Aval, Privat Bank, Raiffeisenbank, Pravex-bank, Nadra, Finansy i Kredit, Prominvestbank, TAS-Commerzbank, Savings Bank, Credo Bank.

Unlike the first quarter 2006, when housing mortgage lending terms were liberalized, in the second quarter the situation in the mortgage lending market changed. Loan interest rates increased, which, in turn, made loans more expensive.

Interest rates

In the second quarter 2006, the nominal interest rate on mortgage loans in the national currency increased by 1-1.5%; on loans in foreign currency – by 0.5-1%. In June, most leading players in the Kyiv mortgage market increased their housing loans interest rates. For example, Raiffeisenbank Ukraine and Finansy i Kredit increased their interest rates on hryvnia loans by two percentage points, and the latter, by 0.5 in the foreign currency. Also, Ukrsotsbank, Aval, Nadra, Savings Bank and Credo Bank increased their interest rates on hryvnia loans by 0.5-1% and by 0.5-1% in the foreign currency, except for the Aval Bank.

Not all banks increased their mortgage loan interest rates. Prominvest reduced its mortgage loan interest rate by 1.5-2% both in the national and foreign currency. In Prominvestbank, they explain the interest rates reduction by their intention to diversify the loan portfolio and increase profitability of their branches. The only bank that continues following the price liberalization policy regarding mortgage is Ukrsibbank, where the interest rate was reduced by 0.5% in USD and Euro and by 1% in respect of loans denominated in Swiss francs. It is worth noting that, in the second quarter, Privat Bank, TAS-Commerzbank and Pravex-bank did not change their nominal level of loan interest rates.

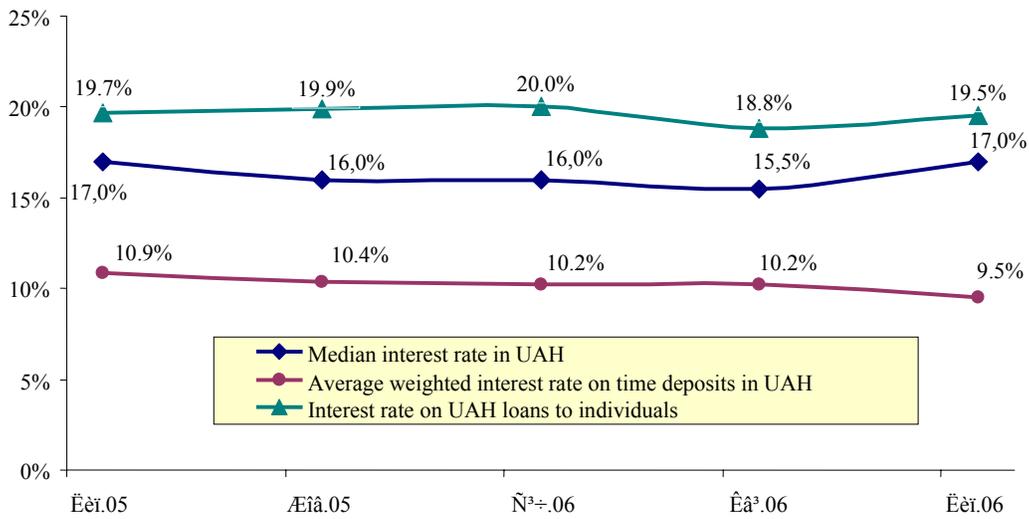


Chart 31. Change of interest rates on housing loans in the national currency in the second quarter of 2006, %

Overall, as of July 1, 2006, the median interest rate on loans in the national currency was 16.5-17.5%, on loans in USD – 12-13%, in Euro – 10.5-11.5%.

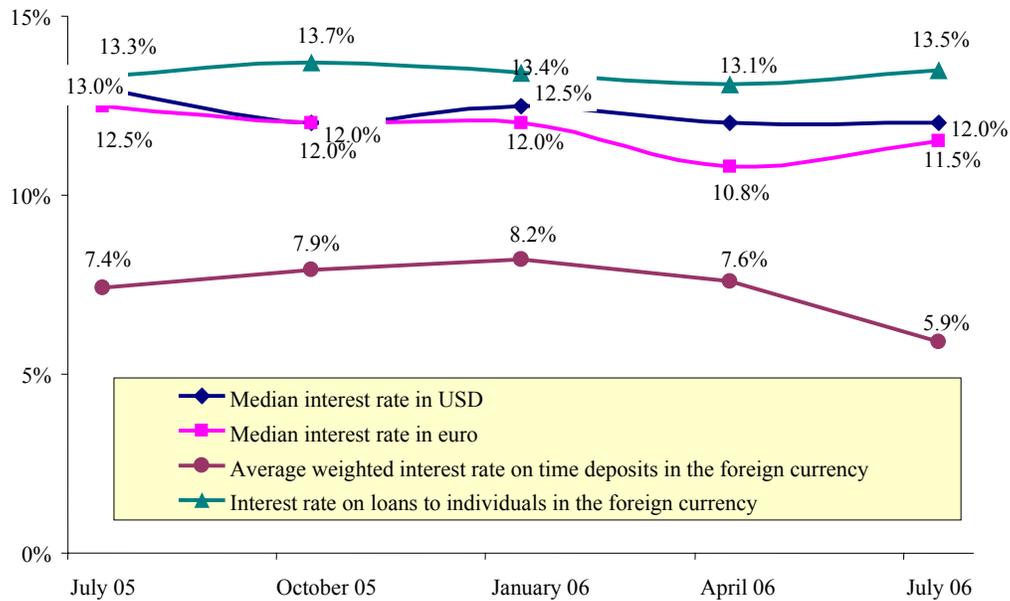


Chart 32. Change of interest rates on housing loans in the foreign currency in the second quarter of 2006, %

We believe that the main reasons for rising interest rates on mortgage loans are the following:

- Many banks cannot afford issuing new mortgage loans due to the threat of non-fulfillment introduced by the National Bank of Ukraine, the norm of adequacy of regulatory capital N2.
- The demand for mortgage loans exceeds the supply, therefore, to limit the mortgage loans, some banks increase loan interest rates.
- Instability of the political environment in the country, because the government was not formed for many months.
- Resources tend to become more expensive at world stock exchanges.

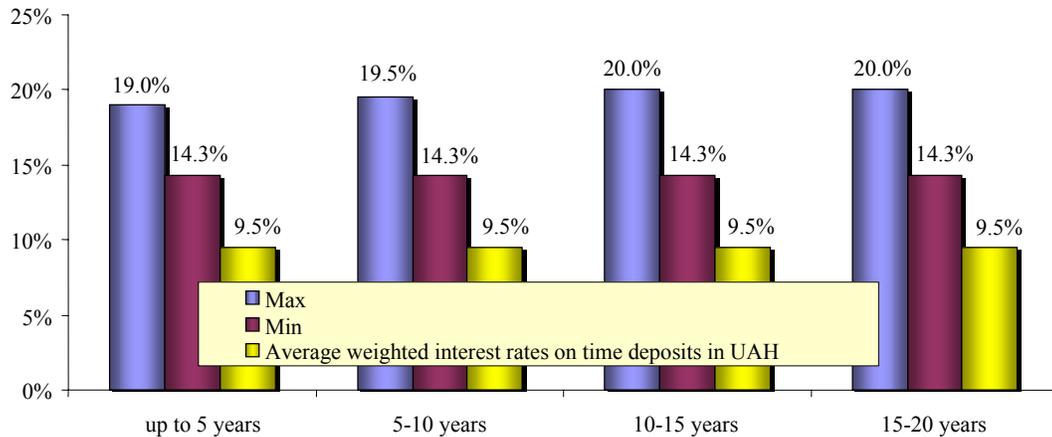


Chart 33. Minimum and maximum interest rates on mortgage loans in UAH

In turn, maximum and minimum limits of interest rate differentiation by bank in the second quarter 2006 have slightly risen. The maximum interest rate on housing loans in UAH is 19-20%. The minimum interest rate on loans from 5 to 20 years – is 14.3% - declared by the Savings Bank of Ukraine.

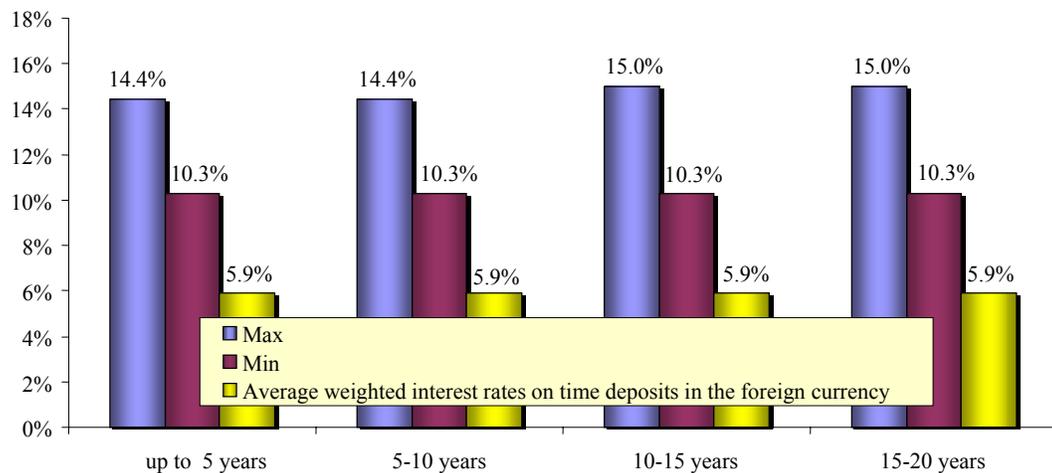


Chart 34. Minimum and maximum interest rates on mortgage loans in USD

Same as in the first quarter, *with regard to the interest rate and monthly commission*, the most expensive housing loans in the foreign currency, in particular, in USD, were offered by Privat Bank (approximately 14.4% for a 10-year term), TAS-Commerzbank

and Prominvestbank (15% for a 20-year term); in Euro – 14-15% - TAS-Commerzbank and Prominvestbank.

The minimum interest rate on loans in USD was established by Ukrsibbank (10.3% for a term from 5 to 10 years). The cheapest loans in Euro are offered by three banks depending on the term:

- 9.3% for a term from 5 to 20 years – Ukrsibbank
- 9.5% for a term up to 5 – Finansy i Kredit
- 10.5% for a term from 5 to 20 – Savings Bank of Ukraine

As it was the case in the first quarter, Privat Bank made an original pricing decision having brought to the same level interest rates on loans in different currencies, however, the loan price difference is included in the monthly commission differentiated depending on currency and lending term. The use of the monthly commission is also an element of the credit policy of the Finansy i Kredit bank (0.35% and 0.19% respectively).

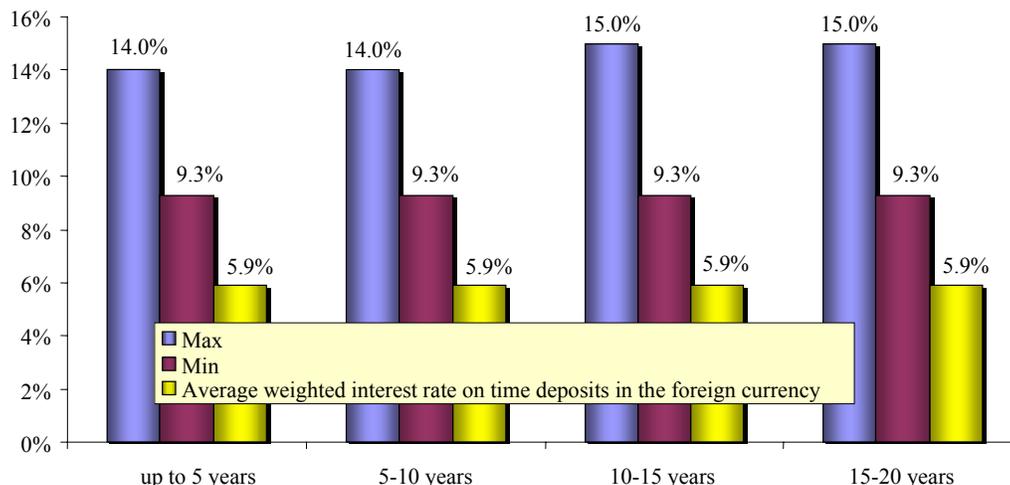


Chart 35. Minimum and maximum interest rates on housing loans in Euro

Banks continue using the regime of fixed interest rates, adjustable interest rates that the banks are entitled to review at their own discretion (*Raiffeisenbank, Ukrsotsbank*) as well as floating rates (Credo Bank – at the level LIBOR+7% for a term of up to 10 years and LIBOR+8% for a term from 10 to 15 years).

The size of one-time commissions is used by banks ever more often not just to cover the actual costs of formalizing a mortgage loan but also as a component of the pricing policy that provides an opportunity to compensate to some extent for a decrease in the level of the interest rate. This indicator varies between 1-2.5%.

LTV

The amount of the borrower's down payment varies in the range between 5% and 30% depending on the real estate market that acts as loan collateral (primary/secondary market). Providing loans to purchase housing at the secondary market, banks most often require the borrower to make a down payment of 15% of the value of the apartment. This

correlation may also depend on type of housing (in UkrSibbank they use the following down payment differentiation: “Khrushchov apartments” – 30%, housing constructed before 1995 – 25%, housing constructed after 1995 – 20%), of the amount of the loan (in UkrSotsbank, the larger the loan amount is, the larger the down payment is – 15-30%).

When providing loans to purchase housing in the primary market, banks establish the required participation with the borrower’s money at the level 15-30%, given higher lending risks.

It is worth noting that, in the second quarter of 2006, the only bank that lowered its requirements to the amount of down payment was Prominvestbank (from 15% to 10% when buying housing in the secondary market and from 20% to 15% in the primary market).

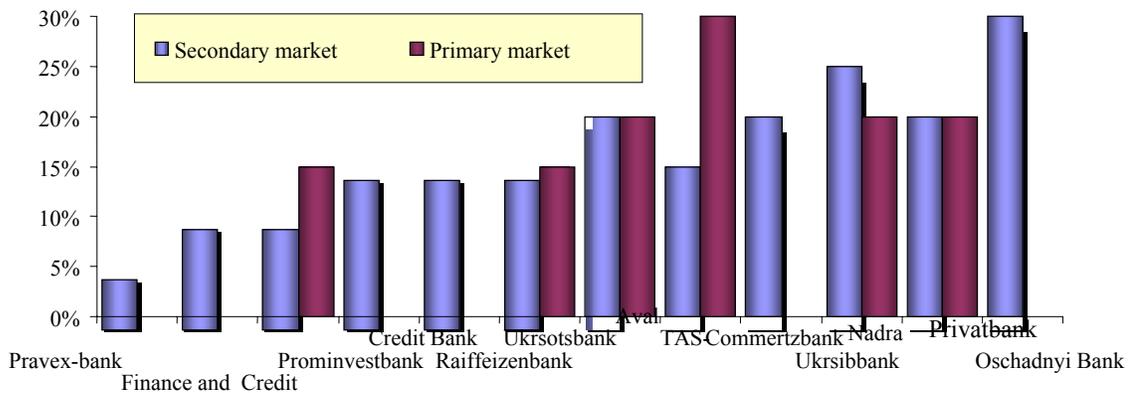


Chart 36. Minimum amount of down payment on housing mortgage loans, %

Lending terms

The typical term of housing mortgage loans in Ukraine is 20 years, while the real term of using a housing mortgage loan, according to bankers, is 6 years. It is worth noting that the maximum term of lending in some banks depends on currency of the loan (Privat Bank: in the national currency, up to 20 years, in the foreign currency, up to 15 years; Aval: in the national currency, up to 15 years, in the foreign currency up to 20 years) and the location of the real estate (UkrSibbank: Kyiv and other big cities – 21 years, the oblast – 15 years).

In the second quarter 2006, as compared to the first quarter, Pravex, Raiffeisenbank and Credo Bank reduced the maximum term by five years and now it is 25, 25 and 20 years respectively. In turn, the longest lending term – 30 years – is offered by Arkada and Nadra.

Insurance

Same as in the first quarter, banks believe that insurance of the mortgaged asset against destruction, damage, accidental loss is obligatory – 0.2-1% of the estimated value of real estate (franchise 0.5-1% of the insurance amount), and life/accident insurance of the borrower – 0.3-0.8%. Title insurance is required only by banks with foreign capital (Raiffeisenbank, International Mortgage Bank, AGIO), which, obviously, is a requirement of the banks' foreign owners.

Table 2. Insurance tariffs by type of insurance in mortgage lending, %

Banks	Insurance of the mortgaged asset	Borrower's life insurance
Aval	0.3	0.55
Privat Bank	0.4	0.5
Raiffeisenbank	0.4	0.3
Pravex-bank	0.5-1	-
Nadra	-	-
Finansy i Kredit	0.3	0.28-0.48
Prominvestbank	0.3	0.8
TAS-Commerzbank	0.3	0.3
Savings Bank	0.65	
Credo Bank	0.2-0.25	0.5-0.7

Possibility of prepayment

Also banks continue establishing moratoriums on and penalties for prepayment:

- Ukrsotsbank – a moratorium on prepayment during the first 2 years of using the loan, penalty of 1% of the prepaid amount;
- Raiffeisenbank - a moratorium on prepayment during the first 6 months of using the loan;
- Nadra - a moratorium on prepayment during the first 2 years of using the loan, penalty of 2% of the prepaid amount.

In accordance with the Law “On Protection of Consumers,” consumers are entitled to prepay loans and change their payment schedule and such terms as a moratorium and penalty for prepayment of the loan have a declarative nature and psychological reasons.

Table 3. Housing mortgage loans terms of 12 banks – the largest mortgage lenders as of July 1, 2006.

Name of bank	Minimum loan interest			Maximum amount	Term, years	% down payment	Market	Obligatory insurance	Types of commission		Possibility of prepayment	Other conditions
	USD	Euro	UAH						One time	Monthly		
Ukrsibbank	10.3	9.3	15.5	-	21 - down to 15- other	20-30%	secondary/ primary	property	2% of the loan amount for issuance	no	no moratorium	
Ukrsotsbank	13	12	18	-	20	15-30%	secondary/ primary	property	1% of the loan amount for issuance	no	Moratorium for the initial 2 years, penalty – 1% of the prepaid amount	
Aval	12	12	17.5	-	20	20%	secondary/ primary	property, life	-	no	no moratorium	
Privat Bank	12	12	12	-	15	20% (15% for clients)	secondary/.	property, life	-	0.14-0.21% for hard currency; 0.45-0.55% for UAH	no moratorium	
Raiffeisenbank	10.99	10.49	17.5	USD 200,000	25	15%	secondary/ -	property, life, title	UAH 1000	no		
Pravex-bank	12	11	-	over USD 55,000 – ind.	25	5%	secondary/ -	property	0.22-0.42% of the amount for opening the account, 1.5% for account maintenance and services; UAH 321- 639 for review of the questionnaire and inspection of documents	no	no moratorium, however, the application is filed 2 weeks in advance	
Nadra	10	8.5	16	-	30	20-25%	secondary/ primary	property, title	1% for the issuance	0.35%	If the loan is repaid during the first 2 years – penalty is 2%	
Finansy i Kredit	10.5	9.5	14	-	20	10%	secondary/ -	property, life	1% of the loan amount for issuance.	0.19 of loan amount	no moratorium	
Prominvestbank	12	12	18	UAH 500,000	20	10-15%	secondary/ primary	property, life	1% of the loan amount, UAH 200 for review, UAH 100 for the issuance	-	no moratorium	12 months – the grace period for repayment of the principal of the loan provided there is additional collateral
TAS-Commerzbank	14	14	21	-	20	15-30%	secondary/ primary	property, life		no	no moratorium	
Savings Bank of Ukraine	11.5	10.5	14.3	-	20	30%	secondary/ -	property, life	UAH 200 for the issuance	no	no moratorium	
Credo Bank (Ukraine)	13.9	11.5	17.9	-	20	15%	secondary/ primary	property, life	2.5% of the loan amount	UAH 35-50	no moratorium	There is floating rate LIBOR+8%

Table 4. Minimum interest rates on housing loans in the secondary market

Banks	1-5 years			5-10 years			10-15 years			15-20 years		
	UAH	USD	Euro	UAH	USD	Euro	UAH	USD	Euro	UAH	USD	Euro
	Ukrsibbank	15.5	10.3	9.3	15.5	10.3	9.3	15.5	10.3	9.3	15.5	10.3
Ukrsotsbank	18.0	13.0	12.0	18.0	13.0	12.0	18.0	13.0	12.0	18.0	13.2	12.25
Aval	17.5	12.0	12.0	17.5	12.0	12.0	17.5	12.0	12.0	-	12.0	12.0
Privat Bank	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	-	-	-
Raiffeisenbank	17.5	10.99	10.49	17.5	11.99	11.75	17.5	11.99	11.75	17.5	11.99	11.75
Pravex-bank	-	12.0	11.0	-	12.0	11.0	-	12.0	11.0	-	12.0	11.0
Nadra	16.0	10.0	8.5	16.0	10.0	8.5	16.0	10.0	8.5	16.0	10.0	8.5
Finansy i Kredit	14.0	10.5	9.5	14.5	11.3	10.3	15.0	11.6	10.6	-	12.0	11.0
Prominvestbank	18.0	13.0	13.0	19.0	14.0	14.0	20.0	15.0	15.0	20.0	15.0	15.0
TAS-Commerzbank	19.0	14.0	14.0	19.5	14.0	14.0	20.0	15.0	15.0	20.0	15.0	15.0
Savings Bank	14.3	11.5	10.5	14.3	11.5	10.5	14.3	11.5	10.5	14.3	11.5	10.5
Credo Bank	17.9	13.9	11.5	17.9	13.9	11.5	17.9	13.9	11.5	-	-	-
Median	17.5	12.0	11.25	17.5	12.0	11.625	17.5	12.0	11.6	17.5	12.0	11.4
Average value	16.5	12.0	11.2	16.7	12.2	11.4	17.0	12.4	11.6	17.6	12.3	11.6

General conclusions

The lack of long money poses a real threat to the development of mortgage lending. Due to liquidity problems and the lack of long money, we expect the number of banks – mortgage lenders – to become somewhat smaller in the second half of 2006. This will concern smaller banks in the first place, mortgage lending for such banks being an attempt to diversify their loan portfolio.

As a result of insufficient circulation of loan resources, mortgage loan interest rates have experienced a slight upturn. Increases of mortgage loan interest rates in individual system banks caused the majority of other banks to somewhat increase the level of their loan interest rates. However, worse lending terms have not reduced the demand for mortgage loans. Overall, it can be said that, during certain periods, the demand for mortgage loans exceeds the supply.

Despite the above mentioned problems, the volume of lending since the year beginning has increased by 46% and we expect that by the end of the year the mortgage loan outstanding amount will be at least UAH 20 billion.

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ATTACHMENT 5

Letterhead

October 18, 2006

Mr. _____
Deputy Minister of Finance

Re: Assessment of SMI readiness and risk management capacity

Dear Mr. Maksiuta:

In response to your request for a readiness report for the State Mortgage Institution to conduct business, please find attached the findings of Mrs. Maiko Sagyndykova, former Chairman of the Kazakhstan Mortgage Company. Also, the Access to Credit Initiative's senior advisor for mortgage has maintained ongoing discussion with senior leadership and, more importantly, department heads. His comments are also attached.

The analysis did not concentrate on what pre-conditions should be in place prior to the State issuing a guarantee. These issues were covered in detail by the The World Bank Aide Memoire dated April 17, 2006 and authored by Loic Chiquier, Lead Housing Specialist. Rather, the analysis looked at the practical side of doing business from the perspective of a former chief executive who successfully developed a similar liquidity facility from just an idea.

Lastly, we recently spoke with SMI senior management and determined they understand the need for developing and installing the software that would manage credits, transport or exchange of data with participating institutions, and loan monitoring for events of default. They are working with bank IT departments to harmonize all IT systems in order to automate operations.

Most sincerely,

USAID Contractor
David C. M. Lucterhand
Chief of Party
Access to Credit Initiative
USAID/Ukraine

Executive Summary

1. Personnel

Department heads appear highly qualified with long experience in either banking operations or government service. All appear enthusiastic about SMI's prospects.

2. Marketing

SMI has actively promoted its product(s) among the commercial banks. The smaller commercial banks, whose loan portfolios are insufficient to support separate covered bonds, show the most interest in cooperating with SMI.

All the banks interviewed identified technical problems with SMI procedures and methodology, but all or most of the problems appear to have simple solutions in the short term.

Limitations on maximum loan size may disadvantage clients in Kiev, where property values are elevated relative to the rest of the country.

3. Operational Issues

Accounting

SMI is currently using the standard Chart of Accounts for non-bank organizations. It should move as quickly as possible to the standard Chart of Accounts for bank and non-bank financial organizations.

Operations

Processing of mortgages purchased from banks is done manually. Manually processing will not support full scale operations which, given the size of the mortgage market in Ukraine, could easily entail thousands of contracts a year. Two processes should be automated:

- underwriting (deciding which contracts comply with SMI standards)
- bookkeeping

Automatization and integration of primary business operations should be of the highest priority in SMI. In the long run, SMI will also have to automate its communications with partner banks, allowing for online secure data dumps and batch processing of payments to and from banks.

Document storage and staffing also present obstacles to rapid growth.

4. Risk Management

Credit Risk

The probability that SMI will be working in the main with smaller banks raises the level of credit risk for SMI and underscores the need for closer monitoring of contract acquisition and maintenance.

Interest Rate Risk

SMI may incur significant interest rate risk if, as planned, it purchases loans from banks at fixed rates. Management may have to develop alternative products.

5. Investment Issues

It is not clear to whom SMI will eventually sell its bonds for refinance. The company needs to invest time and effort in identifying and developing relationship with a broad range of potential investors.

From translation:

Memorandum

To: David C. M. Lucterhand
From: Maiko Sagyndykova
Date: September 28, 2006
Subject: Readiness of SMI to Transact Business

This memo contains a number of comments and suggestions related to activities of the State Mortgage Institution (SMI) which came up during the meetings with its representatives in the course of my trip to Kyiv in July this year.

These comments and suggestions are grouped below into sections covering certain aspects of SMI activities: personnel, marketing, operational aspects, risk management, investment aspects.

Personnel

Presently, SMI has formed the staff consisting of high level professionals with experience of banking activities and civil service. There is strong will and energy of the management to implement programs of the company.

Employees of the institution are placing big hopes in the beginning of active work on purchase of loans and pilot issuance of bonds, which would allow to increase ability of the company to remunerate its employees and improve work conditions.

Marketing

As we learnt from conversations with SMI management, as well as from the meeting with Ukrainian commercial banks, the company has conducted active work presenting and promoting its product among commercial banks.

It was said at the meeting with commercial banks that there exists a number of technical problems (in particular, in accounting, harmonization of the interest rate accrual method between bank mortgages and the SMI product, etc.) but they all can be easily eliminated in the nearest future.

The highest interest for SMI products is demonstrated by the medium-size banks. Large banks have quite extensive portfolios of mortgage loans, and SMI capacity (which due to SMI policy is restricted by the amount of expected sovereign guarantee) seems insignificant to them.

However, if the situation in the debt market deteriorates in the mid-term perspective (3-5 years) as the SMI's capacity increases, it may force the large banks to cooperate with SMI more actively. Maximum amount of mortgage loan on SMI product is not high for potential clients who buy housing in Kyiv because of high real estate prices in this region. That is why we believe that key borrowers in the SMI program will be the residents of other cities where prices for apartments and/or houses are comparable to the suggested restrictions.

Operational aspects

Accounting

Today, SMI applies the accounting system based on the chart of accounts for non-banking institutions. It was mentioned at the meeting with SMI Chief Accountant that the company plans to switch to the bank chart of accounts.

It is necessary to make this transfer as soon as possible because preservation of the old accounting policy may impede automation of operational processes for processing and accounting of loans purchased from the commercial banks.

Operational processes

Operational processes on processing of loans purchased from the commercial banks are manual. Taking into account future volumes of loan purchases (tens of thousands), it is necessary to take measures for acceleration and automation of these processes which, in their turn, consist of 2 components:

- processes of decision making on loan purchases and underwriting (evaluation of creditworthiness of potential buyers, management of the status of all new applications, management and control over gathering and keeping of all required documents, screening and defining the quality of applications on separate products etc.)
- processes on reflection of conducted transactions in the company books.

The current level of organization of these two components of SMI operational system will be unacceptable for significant growth of the volume of transactions by thousands times.

It is necessary to carry out work on design of the whole structure of business processes which will accelerate transactions (through purchase and installation of the relevant software and hardware) and full integration of 2 components of the operational system and accounting.

Practice shows that this work requires extensive time (several months), that is why it is necessary to put it among priorities of the company development.

In the long-term perspective, it is necessary to conduct work on establishment of communications with partner banks, which allows to account for payments from the clients on loans received by the banks in on-line regime.

Premises of the company are not suitable for further growth of operations volume and number of personnel, installation of new servers and communication devices, well guarded archives for credit dossiers.

Risk management

Credit risks

We have already mentioned that key consumers of SMI products supposedly will be residents of periphery areas who take loans in medium-sized banks. This significantly increases risks, even if there is recourse on purchased loans (as many partner banks will not be the banks with wide networks).

That is why SMI should pay attention to creation of the system of effective scoring of the purchased loans. Housing in periphery regions is less liquid, and personal incomes are usually lower and less stable. All this requires higher level of underwriting system for purchased loans.

Operational risks

Operational risks are connected, first of all, with successful fulfillment of the program on automation of operational activities of the company which was mentioned above in the section “Operational aspects”.

Today, components of these risks are comparable with the market risks.

Market risks

Currency risk is excluded because all the transactions are conducted in national currency - Hryvnia.

It appears that the largest problem is interest risk. This is connected with the fact that the company intends to buy loans at the interest rate fixed for the whole term. Taking into account that life of a loan is 10 and more years, and the first SMI issues will be for 3-5 years, there is high risk that the market rate may go up in future, and the company will be unable to get refinancing in the securities market at the required price.

Although this issue could be resolved by creating a fixed interest rate product, SMI representatives are not enthusiastic about this idea. Therefore, the issue of interest risk management remains open.

Investment aspects

Unfortunately, I had no possibility to deeply analyze the situation on the securities market during my stay in Kyiv. Thus, our comments will concern only the SMI's investment policy.

Practice shows that it is very important for mortgage securities issuers such as the SMI to obtain the status of a first-class issuer so that its securities are perceived as high-quality bonds by the market.

In order to reach this position, a corresponding system of relations with as many investors as possible needs to be established. Therefore, I think that SMI should diversify its investments base already starting from the first issues.

It became known to me that some large foreign banks would be interested to buy the whole first bond issue of SMI (with sovereign guarantee). I think that placing the bonds in such a way might reduce «recognizability» and popularity of the securities on the market.

On the other hand, SMI has to develop the market for its own bonds, which are not backed with sovereign guarantee. This will increase institutional strength of the organization committed to market principles. I believe that it is necessary to start implementing measures to promote own mortgage bonds without sovereign guarantee already at this stage.

Finally, I would like to express my immense gratitude to Mr. David Lucterhand, whose efforts, organization skills and human qualities made my visit to Kiev much more effective and enjoyable.

I would also like to thank Mr. Steve Moody for useful information about Ukrainian mortgage system express and assistance in organizing this trip, as well as all Pragma Corporation and SMI employees for their warm treatment during my stay in Kyiv.

Respectfully,

Mayko Sagyndykova

Agenda
for meetings of Ms. Maiko Sagindykova, President of Kazakhstan Mortgage
Company, during her visit to the State Mortgage Institution (SMI)

Monday, July 10, 2006:

10:00 – 13:00 Meeting with SMI Board Members
13:00 – 15:00 Lunch
15:00 – 17:00 Meeting with SMI Board Members

Tuesday, July 11, 2006:

10:00 – 11:00 Meeting with employees of the Legal Analysis and Support Department
11:00 – 12:00 Meeting with employees of the Mortgage Assets Department
12:00 – 13:00 Meeting with employees of the Accounting and Reporting Department
13:00 – 15:00 Lunch
15:00 – 16:00 Meeting with employees of the Finance Department
16:00 – 17:00 Meeting with employees of the Debt Liabilities Department

Wednesday, July 12, 2006:

11:00 – 12:00 Meeting with employees of the SMI Credit Committee
12:00 – 13:00 Meeting with employees of the Assets and Liabilities Management
Committee
13:00 – 15:00 Lunch
15:00 – 17:00 Discussing results with the SMI management; meeting with managers of
the banks that have signed General Agreements on refinancing with the SMI

Thursday, July 13, 2006:

11:00 – 12:00 Meeting with the President of the Ukrainian National Mortgage
Association
12:30 – 13:30 Lunch
14:00 – 15:00 Meeting with representatives of the State Commission for Regulation of
Financial Services Markets
16:00 – 17:00 Meeting with representatives of the State Securities and Stock Market
Commission

Friday, July 14, 2006:

11:00 – 12:30 – Press-conference, UNIAN
Speakers invited:
Earl Gast, Mission Director, USAID / Ukraine-Belarus-Moldova
Igor Yushko, President of the Ukrainian National Mortgage Association
Bohdan Dubas, Chairman of the State Mortgage Institution
12:30 – 13:30 – Reception

ATTACHMENT 6

**Отчет Эмитента о состоянии ипотечного покрытия
по Эмиссии ипотечных облигаций No. xxxxxxxxxxxxxxxx**

Issuers Report

1. Количество кредитов: (Number of contracts)
2. Остаточная стоимость всех кредитов: (Outstanding Balance of Mortgage Loans)
3. Стоимость кредитов и других активов: (Present Value of other Assets in the Pool)
4. Средневзвешенный срок ипотечных и других активов в составе ипотечного покрытия:
(Weighted Average Term of Mortgage Loans and other Assets)
5. Средневзвешенная процентная ставка по ипотечным и другим активам в составе ипотечного покрытия составляет:
(Weighted Average Interest Rate on Mortgage Loans and other Assets)
6. Средневзвешенный коэффициент LTV.
(Weighted Average LTV of mortgage loans)
7. Процент ипотек жилых домов и квартир в составе ипотечного покрытия составляет:
(Percentage of retail mortgages in mortgage pool)

Приложение: (Attachments)

1. Форма 01А
2. Форма 01Б
3. Форма 01В

ATTACHMENT 7

ДОГОВІР ПРО УПРАВЛІННЯ ІПОТЕЧНИМ ПОКРИТТЯМ¹

м. _____

"__" _____ 200_р.

_____ [повне найменування банку, фінансової установи] (надалі іменується "Емітент") в особі _____ [посада, прізвище, ім'я, по батькові], що діє на підставі _____, з одного боку, та [повне найменування банку, фінансової установи] (надалі іменується "Управитель") в особі _____ [посада, прізвище, ім'я, по батькові], що діє на підставі _____, з іншого боку, уклали цей Договір про управління іпотечним покриттям (надалі іменується "Договір") про таке:

СТАТТЯ 1. ВИЗНАЧЕННЯ ТЕРМІНІВ

1.1. **Визначення.** У цьому Договорі терміни вживаються в такому значенні:

1.1.1. "Аудитор" означає [повне найменування];

1.1.2. "Випадок порушення зобов'язань за цим Договором" має значення, вказане у пункті 10.1 цього Договору;

1.1.3. "Випадок порушення Емітентом зобов'язань за Облігаціями" означає настання однієї з таких умов:

- 1) невиконання або неналежного виконання грошових зобов'язань за Облігаціями у строки, визначені у Проспекті;
- 2) порушення щодо Емітента провадження у справі про банкрутство або призначення тимчасового адміністратора чи ліквідатора;
- 3) непроведення заміни іпотечних активів або невключення нових іпотечних активів до складу Іпотечного покриття згідно із статтею 14 Закону;
- 4) вчинення Емітентом щодо Іпотечного покриття дій, які суперечать вимогам Закону, якщо такі дії ставлять під загрозу належне виконання Емітентом зобов'язань за Облігаціями;
- 5) в інших випадках, визначених у Проспекті;

¹ Цей проект Договору про управління іпотечним покриттям включає деякі положення, що стосуються до змісту Проспекту, наприклад визначення терміну "Випадок порушення Емітентом зобов'язань за Облігаціями" та статтю про проведення Загальних зборів. Авторіві здавалося доцільним включити ці положення з міркувань комплектності проекту хоча в остаточному підсумку розподіл положень між цим Договором і Проспектом може бути зроблене трохи інакше.

- 1.1.4. "**Витрати на послуги Аудитора та Зберігача**" має значення, вказане у пункті 5.2 цього Договору;
- 1.1.5. "**Власник**" означає власника Облігації;
- 1.1.6. "**Договір**" означає цей договір про управління іпотечним покриттям;
- 1.1.7. "**Емітент**" має значення, вказане у вступі цього Договору;
- 1.1.8. "**Загальні збори**" означає загальні збори Власників, які скликаються відповідно до статті 8 цього Договору;
- 1.1.9. "**Закон**" означає Закон України "Про іпотечні облігації";
- 1.1.10. "**Зберігач**" [за наявності] означає [повне найменування];
- 1.1.11. "**Здійснення продажу**" означає діяльність Управителя, яка передбачає виконання функцій та повноважень, зазначених в пункті 4.2.1(2)(а) або 4.4.1(2) цього Договору;
- 1.1.12. "**Іпотечне покриття**" означає іпотечне покриття Облігацій;
- 1.1.13. "**Комісія**" означає Державну комісію з цінних паперів та фондового ринку України;
- 1.1.14. "**Лічильна комісія**" має значення, вказане в пункті 8.4.1 цього Договору;
- 1.1.15. "**Облігації**" означає звичайні іпотечні облігації з кількістю, номінальною вартістю, прибутковістю, строками й порядком погашення, зазначеними в Додатку __ цього Договору;
- 1.1.16. "**Особливо істотне питання**" означає будь-яку пропозицію
- 1) про зміну дати погашення основної суми або оплати процентного доходу Облігацій, або про зміну методики визначення дати погашення основної суми або оплати процентного доходу Облігацій, про зменшення основної суми або процентного доходу Облігацій, що підлягає оплаті в будь-яку дату, про зміну методики вирахування суми, що підлягає оплаті у випадку викупу або погашення Облігацій, або про зміну дати такої оплати;
 - 2) про зменшення або скасування основної суми Облігацій;
 - 3) про зміну валюти або місця оплати будь-якої суми відповідно до Облігацій;
 - 4) про зміну зобов'язання оплати Емітентом додаткових сум відповідно до пункту __ Проспекту;
 - 5) про зміну визначення Випадку порушення Емітентом зобов'язань за Облігаціями;

(6) про зміну вибору права, що повинне застосовуватися до тлумачення цього Договору або Облігацій, або про зміну прийняття Емітентом, Управителем і Власниками юрисдикції судів відповідно до статей __ цього Договору й Проспекту;]

7) про зміну положень статті 8 цього Договору щодо кількості голосів для вповноваження Загального збору (кворуму) та прийняття рішень на ньому;

8) про затвердження скасування або врегулювання претензії Власників у будь-якому судочинстві, позові, банкрутстві або тимчасовій адміністрації щодо Емітента або Управителя та Облігацій;

9) про зміну цього визначення Особливо істотного питання.

1.1.17. "**Положення**" означає Положення Комісії "Про іпотечне покриття звичайних іпотечних облігацій, порядок ведення реєстру іпотечного покриття та управління іпотечним покриттям звичайних іпотечних облігацій";

1.1.18. "**Послуги щодо забезпечення обслуговування**" має значення, вказане у пункті 5.3 цього Договору;

1.1.19. "**Послуги щодо Здійснення продажу та задоволення вимог**" має значення, вказане у пункті 5.3 цього Договору;

1.1.20. "**Поточні послуги**" має значення, вказане у пункті 5.2 цього Договору;

1.1.21. "**Проспект**" означає проспект Облігацій, передбачений статтею 5 Закону;

1.1.22. "**Реєстр іпотечного покриття**" означає реєстр Іпотечного покриття, передбачений статтею 10 Закону;

1.1.23. "**Реєстр обтяжень**" означає Державний реєстр обтяжень рухомого майна України;

1.1.24. "**Резервна обслуговуюча установа**" [за наявності] означає [повне найменування];

1.1.25. "**Сторони**" означає Емітента, Управителя та, після придбання Облігацій, Власників;

1.1.26. "**Управитель**" має значення, вказане у вступі цього Договору;

1.2. **Тлумачення.** У цьому Договорі

1.2.1 якщо інше не передбачене цим Договором, терміни та поняття вживаються у цьому Договорі згідно з визначеннями, що містяться у Законі;

1.2.2. посилання на будь-яке положення закону, іншого законодавчого й нормативно-правового акту, договору, листа або документа (у тому числі на положення цього Договору) є посиланнями на відповідне положення закону, іншого законодавчого або нормативно-

правового акту, документа, договору, листа або інструмента із відповідними змінами й доповненнями (якщо такі внесені), або в новій редакції (якщо така прийнята), або на змінений у відповідності з його умовами закон, інший законодавчий і нормативно-правовий акт, документ, договір, лист або інструмент у відповідний момент часу;

1.2.3. посилання на будь-яку особу, що діє в будь-якій якості (у тому числі на Емітента й Управителя), також розуміються як посилання на її правонаступників і заміників, що правомірно стали такими;

1.2.4. коли слово вживається в однині, то у відповідному контексті воно передбачається також чинним у множині, і навпаки; посилання й вказівки на особу є посиланнями й вказівками на фізичних осіб і на юридичні особи в будь-якій організаційно-правовій формі, на держави, державні органи й на об'єднання будь-яких з перерахованих вище осіб;

1.2.5. заголовки статей, пунктів і додатків дані винятково для зручності посилань на них і не впливають на тлумачення цього Договору;

1.2.6. всі додатки до цього Договору є його невід'ємною частиною.

СТАТТЯ 2. ПРЕДМЕТ ДОГОВОРУ ТА ЗАГАЛЬНІ ПОЛОЖЕННЯ

2.1. *Предмет Договору.* Цей Договір визначає права та обов'язки Сторін з управління Іпотечним покриттям, повноваження та обмеження щодо діяльності Управителя, порядок оплати його послуг, а також інші умови управління Іпотечним покриттям. Емітент і Власники цим Договором уповноважують Управителя на здійснення всіх юридичних і фактичних дій, передбачених цим Договором.

2.2. Загальні положення.

2.2.1. Після придбання Облігацій їх Власники вважаються такими, що приєдналися до цього Договору, і вони є установниками управління, передбаченого в пункті 2.3.6 цього Договору.

2.3. Управитель здійснює управління Іпотечним покриттям відповідно до умов цього Договору виключно в інтересах Власників.

2.3.1. Управитель не набуває права власності чи інших майнових прав на Іпотечне покриття.

2.3.2. Управитель не має права користуватися та розпоряджатися іпотечними та іншими активами у складі Іпотечного покриття, крім випадків, передбачених у пункті 4.2.1(2)(а) або 4.4.1(2) цього Договору.

2.3.3. Управитель не має права вчиняти щодо Іпотечного покриття або Облігацій будь-які правочини поза межами своєї компетенції, встановленої цим Договором та Проспектом, якщо наслідком цих правочинів є порушення норм чинного законодавства та вимог нормативно-правових актів Комісії, Закону та Положення.

2.3.4. Управитель не є гарантом виконання зобов'язань Емітента за Облігаціями.

2.3.5. Управитель представляє інтереси Власників без довіреності на підставі цього Договору.

2.3.6. Якщо інше не передбачено цим Договором, діяльність Управителя не вважається управлінням майном, передбаченим главою 70 Цивільного кодексу України. Діяльність Управителя вважається управлінням майном лише у разі виконання ним обов'язків, передбачених в пунктах 3.1 и 4.2.1(2) цього Договору. При вчиненні фактичних і юридичних дій, пов'язаних з управлінням Іпотечним покриттям, Управитель зобов'язаний повідомляти осіб, з якими він вчиняє правочини, про те, що він є управителем, а не власником іпотечного покриття.

СТАТТЯ 3. ПОТОЧНІ ПОСЛУГИ

3.1. **Реєстр обтяжень.** Відомості про обтяження заставою Іпотечного покриття вносяться Управителем до Реєстру обтяжень протягом п'яти робочих днів з дня державної реєстрації випуску Облігацій у порядку, встановленому законодавством з дотриманням таких умов:

3.1.1 У заяві про реєстрацію обтяження із заставою Іпотечного покриття вказується, що обтяжувачем є Управитель, який діє в інтересах Власників.

3.1.2 До Реєстру обтяжень вносяться відомості про Іпотечне покриття як предмет обтяження шляхом надання його опису за родовими ознаками. Опис Іпотечного покриття повинен вказувати на його початковий розмір на момент реєстрації Облігацій,

3.1.3. Відомості про поточний розмір, склад Іпотечного покриття та зміни у складі Іпотечного покриття до Реєстру обтяжень не вносяться, [якщо інше не передбачено Проспектом].

3.2. **Аудити та інспектування.** Управитель здійснює контроль за поточним станом Іпотечного покриття та за веденням Реєстру іпотечного покриття на підставі Проспекту, цього Договору та договору з Аудитором, шляхом

3.2.1 здійснення Аудитором таких аудитів на предмет виявлення відповідності Іпотечного покриття вимогам, зазначеним у пунктах 12.4.1 та 12.4.2 Положення та виявлення відповідності даних Реєстру іпотечного покриття щодо іпотечного покриття та окремих іпотечних активів і активів-замінників у складі Іпотечного покриття даним бухгалтерського обліку і фінансової звітності Емітента:

1) попереднього аудиту до моменту реєстрації випуску Облігацій,

2) планових аудитів по завершенню кожного процентного періоду за Облігаціями з періодичністю та в строки, передбачені Додатком __ цього Договору але не рідше одного разу на рік,

3) позапланових аудитів на вимогу Управителя у разі виникнення загрози невиконання Емітентом зобов'язань за Облігаціями,

з метою подання до Комісії Емітентом відповідних аудиторських висновків, в яких зазначається інформація, зазначена у пунктах 12.6.1, 12.6.2 та 12.6.3 Положення. Ці аудити здійснюються шляхом перевірок іпотечних активів та активів-замінників у складі Іпотечного покриття, загальні вимоги (методологія) яких викладені в додатку __ цього Договору.

3.2.2 інспектування Реєстру іпотечного покриття, передбачене у пункті 3.2.5 цього Договору.

3.2.3. Емітент зобов'язаний надати Комісії аудиторський висновок, передбачений пунктом 3.2.1 цього Договору, у строки, встановлені пунктом 14.3. Положення, і Власникам на їх вимогу.

3.2.4 Управитель має право через Аудитора на підставі договору з останнім або, у випадках, передбачених [Проспектом та/або цим Договором], самостійно здійснювати інспектування даних Реєстру іпотечного покриття.

3.2.5. Управитель має право у будь-який час протягом строку обігу Облігацій на власний розсуд провести інспектування Реєстру іпотечного покриття. Метою інспектування є ознайомлення із змінами, що сталися у Реєстрі іпотечного покриття, на предмет дотримання Емітентом умов формування Іпотечного покриття відповідно до Закону та Положення. Аудиторський висновок за результатами інспектування Реєстру іпотечного покриття не складається.

3.3. *Витяги з Реєстру іпотечного покриття.*

3.3.1. Емітент зобов'язаний надавати витяг з Реєстру іпотечного покриття Управителю – щомісячно протягом __ робочих днів з кінця місяця.

3.3.2. Управитель має право на отримання витягів з Реєстру іпотечного покриття у будь-який час на його вимогу.

3.3.3 Управитель зобов'язаний вимагати від Емітента будь-який витяг з Реєстру іпотечного покриття протягом одного робочого дня з дати отримання письмового запиту Власника й надати цей витяг Власникові протягом одного робочого дня з дати отримання витягу від Емітента.

3.3.4. Інформацію, надану окремому Власникові або Власникам, Управитель має право, але не зобов'язаний, надавати також будь-яким іншим Власникам і особам на його розсуд.

3.4. *Зберігання документів.*

3.4.1 Управитель забезпечує зберігання таких документів, які засвідчують права Емітента на іпотечні активи у складі Іпотечного покриття у порядку, передбаченому Проспектом, самостійно або на підставі договору із Зберігачем (за наявності):

1) заставних, що засвідчують права Емітента на іпотечні активи у складі Іпотечного покриття (якщо відповідні іпотечні активи засвідчені заставними), та

2) лише тих інших документів (за наявності) щодо Іпотечного покриття, що зазначені у додатку __ цього Договору.

3.4.2. Управитель має право делегувати Зберігачеві свої функції відповідно до пункту 3.4.1 цього Договору в будь-якій їхній частині на підставі договору із Зберігачем.

3.5. **Заміна іпотечних активів.** Управитель здійснює контроль за додержанням умов заміни іпотечних активів чи включення нових іпотечних активів до складу Іпотечного покриття відповідно до пунктів 3.2 и 3.6 цього Договору.

3.6 **Моніторинг порядку виконання зобов'язань Емітента.**

3.6.1. Управитель здійснює такі дії, спрямовані на здійснення контролю за своєчасністю та повнотою виконання Емітентом грошових зобов'язань за Облігаціями на користь Власників, шляхом

1) пред'явлення Емітенту вимог щодо подання документів, які свідчать про сплату ним платежів за Облігаціями на користь Власників у відповідності до Проспекту та реєстру власників Облігацій;

2) звертання до Власників за інформацією щодо своєчасності та повноти отримання ними платежів за Облігаціями згідно з Проспектом;

3) пред'явлення Емітенту вимог щодо проведення аудиторської перевірки на предмет дотримання Емітентом порядку виконання грошових зобов'язань за Облігаціями.

3.6.2. До звернення стягнення Управитель представляє інтереси Власників у відносинах з Емітентом, іншими особами, в судах та державних органах шляхом здійснення таких дій:

1) у відносинах з Емітентом

а) спрямування Емітенту запитів за інформацією щодо Облігацій та Іпотечного покриття;

б) пред'явлення Емітенту вимог щодо виконання ним грошових зобов'язань за Облігаціями, якщо Емітентом були порушені строки, розміри та інші умови здійснення періодичних платежів за Облігаціями на користь Власників;

в) пред'явлення Емітенту вимог щодо приведення Іпотечного покриття у відповідність до умов, передбачених главами 2-4 Положення, якщо у процесі моніторингу Іпотечного покриття були виявлені порушення цих умов;

г) пред'явлення Емітенту вимог щодо дострокового погашення Облігацій, у разі настання Випадку порушення Емітентом зобов'язань за Облігаціями.

2) у відносинах з Аудитором або з особою, що здійснює депозитарне обслуговування, обслуговуючою установою (за наявності)

а) здійснення реєстрації відомостей про обтяження заставою Іпотечного покриття на користь Власників у Реєстрі обтяжень відповідно до 3.1 цього Договору;

б) надання Власникам на їх вимогу витяги з Реєстру іпотечного покриття, аудиторських висновків та іншу неконфіденційну інформацію щодо Облігацій та Іпотечного покриття;

в) у разі порушення Емітентом вимог, встановлених Законом та Проспектом, письмове інформування Комісії про це протягом 10 днів з дати виявлення факту такого порушення.

3.6.3 У разі ухвалення рішення Власниками відповідно до пункту __ цього Договору про відшкодування можливих витрат і збитків Управителя

1) представляє інтереси Власників у судах з питань, пов'язаних з обігом Облігацій, Іпотечним покриттям, а також виконанням Емітентом зобов'язань за Облігаціями,

2) приймає рішення про звернення стягнення на Іпотечне покриття, порушення щодо Емітента судового чи іншого провадження, що має на меті задоволення вимог Власників у разі настання Випадку порушення Емітентом зобов'язань за Облігаціями.

3.6.4. Управитель не може виконувати функції обслуговуючої установи щодо іпотечних активів у складі Іпотечного покриття та бути андеррайтером за випуском Облігацій, крім випадку звернення стягнення на Іпотечне покриття.

СТАТТЯ 4. ЗВЕРНЕННЯ СТЯГНЕННЯ, ТИМЧАСОВА АДМІНІСТРАЦІЯ, БАНКРУТСТВО, ЛІКВІДАЦІЯ

4.1. Права Власників.

4.1.1. У разі настання Випадку порушення Емітентом зобов'язань за Облігаціями Власники набувають такі права:

1) вимагати від Емітента дострокового виконання грошових зобов'язань за Облігаціями;

2) вживати заходів примусового стягнення заборгованості Емітента за Облігаціями відповідно до законодавства;

3) звертати стягнення на Іпотечне покриття;

4) задовольняти свої вимоги за рахунок інших активів Емітента у разі недостатності коштів після звернення стягнення на Іпотечне покриття.

4.1.2. Власники здійснюють зазначені у пункті 4.1.1 права через Управителя.

4.2. Послуги у ході звернення стягнення на Іпотечне покриття.

4.2.1. У ході звернення стягнення на Іпотечне покриття Управитель

1) представляє інтереси Власників у відносинах з Емітентом та іншими особами в судах та державних органах відповідно до пункту 3.6.2 цього Договору;

2) залежно від обраного способу задоволення вимог Власників за рахунок Іпотечного покриття та відповідно до Пропекту і цього Договору здійснює управління іпотечними активами та активами-замінниками у складі іпотечного покриття в інтересах Власників шляхом

а) здійснення продажу Іпотечного покриття іншій особі (особам) з наступним розподілом доходу від такого продажу відповідно до укладених договорів, законодавства України та Пропекту;

б) забезпечення самостійно або на підставі договору з Резервною обслуговуючою установою обслуговування Іпотечних активів та активів-замінників у складі Іпотечного покриття і здійснення розподілу коштів, що надходять від Іпотечного покриття відповідно до укладених договорів, законодавства України та Пропекту;

3) вживає заходів щодо задоволення вимог Власників за рахунок іншого майна Емітента.

4.2.2. [порядок розподілу доходів від іпотечного покриття у разі звернення стягнення на нього]

4.3. Послуги Управителя у разі призначення тимчасової адміністрації Емітента або порушення справи про його банкрутство.

4.3.1. У разі призначення тимчасової адміністрації Емітента або порушення справи про банкрутство Емітента Управитель вимагає передачі Іпотечного покриття до Резервної обслуговуючої установи або, якщо вона не може здійснювати або відмовиться від здійснення функцій обслуговування Іпотечного покриття, до визначеної Управителем іншої обслуговуючої установи, на обслуговування, а також здійснює розпорядження коштами з Іпотечного покриття в інтересах Власників відповідно до укладених договорів, законодавства України та Пропекту у межах, зазначених у пункті 16.5 Положення.

4.4. Послуги у разі прийняття рішення про ліквідацію Емітента.

4.4.1. У разі прийняття рішення про ліквідацію Емітента Управитель

1) відчужує Іпотечне покриття самостійно або спільно з ліквідатором, а також вживає заходів щодо отримання коштів Власниками за рахунок іншого майна Емітента;

2) здійснює продаж Іпотечного покриття самостійно або спільно з ліквідатором з наступним розподілом доходу від такого продажу відповідно до укладених договорів, законодавства України та Пропекту;

СТАТТЯ 5. РОЗМІР ТА СПЛАТА ВИТРАТ І ВИНАГОРОД УПРАВИТЕЛЯ

5.1 Якщо інше не передбачене цим Договором, Емітент зобов'язаний

1) сплачувати Управителю винагороди за здійснення Управителем послуг, передбачених цим Договором, відповідно до Додатка __ цього Договору або забезпечувати їхню оплату;

2) відшкодувати всі обґрунтовані витрати Управителя, негайно після його вимогу, у зв'язку будь-яким положенням цього Договору (у тому числі винагороди й витрати його агентів й юристів) за винятком витрат, які виникли як безпосередній результат недбалості або несумлінності Управителя;

3) відшкодувати всі збитки, понесені Управителем у зв'язку з управлінням Іпотечним покриттям, у тому числі витрати судового захисту у зв'язку зі здійсненням його функцій і повноважень, передбачених цим Договором, за умови, що вони не виникли як безпосередній результат недбалості або несумлінності Управителя.

5.2 Винагороди Управителя за виконання функцій, передбачених пунктами 3.1 - 3.6 цього Договору (надалі іменуються "**Поточні послуги**") та витрати Управителя на послуги Аудитора щодо перевірки стану Іпотечного покриття, Реєстру іпотечного покриття та порядку виконання Емітентом зобов'язань за Облігаціями, на послуги Зберігача (за наявності) щодо зберігання документів (надалі іменуються "**Витрати на послуги Аудитора та Зберігача**") та інші пов'язані з Поточними послугами витрати Управителя сплачуються Емітентом на користь Управителя у розмірі та в порядку, визначених Частиною __ Додатка __ цього Договору відповідно до процентного періоду за Облігаціями.

5.3 Винагороди Управителя за виконання функцій зі Здійснення продажу або функцій, передбачених пунктами 4.2.1(3) цього Договору (надалі іменуються "**Послуги щодо Здійснення продажу та задоволення вимог**") і за виконання функцій, передбачених пунктами 4.2.1(2)(б) або 4.3.1 цього Договору цього Договору (надалі іменуються "**Послуги щодо забезпечення обслуговування**") і пов'язані з ними витрати підлягають сплаті на користь Управителя за рахунок доходів від Іпотечного покриття чи іншого майна Емітента у розмірі та в порядку, визначених Частиною __ Додатка __ цього Договору, шляхом утримання Управителем цих винагород і витрат із сум доходів, отриманих від продажу, задоволення вимог чи обслуговування Іпотечного покриття чи іншого майна Емітента.

5.4 Максимальне обмеження розміру витрат і винагород Управителя:

5.4.1. Максимальний розмір винагород Управителя за Поточні послуги й Витрати на послуги Аудитора та Зберігача щороку не може перевищувати 2 відсотки річних від поточного розміру Іпотечного покриття;

5.4.2. Максимальний розмір винагород Управителя за Послуги щодо Здійснення продажу та задоволення вимог і пов'язаних з ним витрат Управителя не може перевищувати 5 відсотків від суми коштів, отриманих від продажу Іпотечного покриття чи іншого майна Емітента;

5.4.3. Максимальний розмір винагород Управителя за Послуги щодо забезпечення обслуговування і пов'язаних з ним витрат Управителя щороку не може перевищувати 5 відсотків річних від поточного розміру Іпотечного покриття на звітну дату.

5.5 Послуги особи, що здійснює депозитарне обслуговування, та обслуговуючої установи (за наявності) оплачуються Емітентом самостійно.

5.6. Вимога Управителя щодо сплати його витрат і винагород має пріоритет над вимогами Власників.

СТАТТЯ 6. ІНШІ ПРАВА ТА ОБОВ'ЯЗКИ УПРАВИТЕЛЯ ТА ЕМІТЕНТА

6.1. *Інші обов'язки Управителя.* Управитель зобов'язаний:

6.1.1. негайно повідомити Емітента про виникнення Випадку невиконання зобов'язань відносно Управителя, а також на письмову вимогу Емітента надавати йому задовольняюче його підтвердження того, що жодного відповідного Випадку невиконання зобов'язань відносно Управителя не відбулося.

[6.2. *Інші права Управителя.* Управитель має такі права:]

6.3. *Інші обов'язки Емітента.* Емітент зобов'язаний:

6.3.1. одержувати всі необхідні згоди, ліцензії, повноваження й дозволи, або забезпечувати здійснення всіх необхідних для їхнього одержання дій, а також здійснювати або забезпечувати здійснення реєстрацій, повідомлень, погоджень та інших дій, які у відповідний момент є обов'язковими в Україні для укладання, вручення і виконання цього Договору, а також зобов'язань Емітента за цим Договором, а також для вступу в чинність, збереження в чинності та примусового виконання цього Договору і зобов'язань Емітента за ним;

6.3.2. надати цей Договір Комісії для реєстрації випуску Облігацій;

6.3.3. забезпечувати допуск Управителя й Аудитора до необхідних документів та інформації для здійснення їхніх функцій, передбачених цим Договором;

6.3.4. негайно повідомляти Управителя про виникнення Випадку невиконання зобов'язань відносно Емітента, а також на письмову вимогу Управителя надавати йому задовольняюче його підтвердження того, що жодного відповідного Випадку невиконання зобов'язань відносно Емітента не відбулося;

6.3.5. у разі настання будь-якого Випадку порушення Емітентом зобов'язань за Облігаціями на вимогу Управителя зобов'язаний за рахунок Емітента повністю передати інформаційну базу реєстру Іпотечного покриття Управителю або призначеній ним обслуговуючій установі;

[6.4. *Інші права Емітента.* Емітент має такі права:]

[6.5. *Інші обов'язки Власників.* Власники зобов'язані:]

[6.6. *Права Власники.* Власники мають такі права:]

СТАТТЯ 7. ЗАПЕВНЕННЯ ТА ГАРАНТІЇ СТОРІН

7.1. *Запевнення та гарантії Емітента.* Емітент запевняє й гарантує Управителю, що:

- 7.1.1. Цей Договір належним чином підписаний з боку Емітента належним чином вповноваженим(і) особою(-ами), при цьому він являє собою дійсне зобов'язання Емітента, що має юридичну чинність та у відповідному випадку може бути примусово виконане відносно Емітента само так, як воно в ньому написано;
- 7.1.2. жодних дій і документів (зокрема, одержання будь-якої згоди або ліцензії, подачі, повідомлення, клопотання, здійснення реєстрації) не потрібно для укладення Емітентом цього Договору, здійснення передбачених цим Договором угод, а також для дотримання ним умов цього Договору;
- 7.1.3. укладення і вручення цього Договору Емітентом, здійснення передбачених цим Договором угод, а також виконання й дотримання Емітентом умов цього Договору ані в цей час ані в майбутньому:
 - 1) не порушує й не суперечить жодному правовому акту, статутним документам, іншим актам, що носять обов'язковий характер, договору та інструменту, по якому Управитель є стороною, положення яких поширюються на нього або його майно або умовами яких Емітент або його майно зв'язані; так само як не призведе до порушення умов або положень жодного з перерахованих вище документів і не є випадок порушення зобов'язань по жодному з них;
 - 2) не призводить до виникнення випадку порушення зобов'язань або мораторію у відношенні будь-якого із зобов'язань Управителя, так само як не приводить до накладення санкцій або створення обтяження відносно будь-якого майна або прав Емітента;
- 7.1.4. не відбулося жодного випадку й не виникло обставин, які могли б (після закінчення періоду часу, при направленні повідомлення, ухваленні рішення, здійсненні дій відповідно до інших вимог, або при одночасному настанні будь-яких з вищевказаних подій) являти собою Випадок порушення зобов'язань за цим Договором;
- 7.1.5. він не є особою, пов'язаною з Емітентом у розумінні статті 3 Закону України "Про інститути спільного інвестування (пайові та корпоративні інвестиційні фонди)";

- 7.1.6. [він до моменту укладення цього Договору повідомив Емітента та Комісію, що він здійснює (здійснював) управління іпотечним покриттям іншого випуску іпотечних цінних паперів та ніколи не був відсторонений від управління іпотечним покриттям будь-якого попереднього випуску іпотечних цінних паперів в силу неналежного виконання ним своїх обов'язків] або [він до моменту укладення цього Договору не здійснював управління іпотечним покриттям іншого випуску іпотечних цінних паперів];
- 7.1.7. він не є стороною договору про збереження реальної вартості іпотечного покриття відповідного випуску звичайних іпотечних облігацій;
- 7.1.8. сукупна номінальна вартість Облігацій, власником яких є він, не перевищує 20% від розміру всього випуску Облігацій.

7.2. Запевнення та гарантії Управителя. Управитель запевняє й гарантує Емітенту, що:

- 7.2.1. цей Договір належним чином підписаний з боку Управителя належним чином вповноваженим(і) особою(-ами), при цьому він являє собою дійсне зобов'язання Управителя, що має юридичну чинність та у відповідному випадку може бути примусово виконане відносно Управителя само так, як воно в ньому написано;
- 7.2.2. жодних дій і документів (зокрема, одержання якої-небудь згоди або ліцензії, подачі повідомлення, клопотання, здійснення реєстрації) не потрібно для укладення Управителем цього Договору, здійснення передбачених цим Договором угод, а також для дотримання ним умов цього Договору;
- 7.2.3. укладення і вручення цього Договору Управителем, здійснення передбачених цим Договором угод, а також виконання й дотримання Упрвителем умов цього Договору а ні в цей час ані в майбутньому:

- 1) не порушує й не суперечить жодному правовому акту, статутним документам, іншим актам, що носять обов'язковий характер, договору та інструменту, по якому Управитель є стороною, положення яких поширюються на нього або його майно або умовами яких Емітент або його майно зв'язані; так само як не призведе до порушення умов або положень жодного з перерахованих вище документів і не є випадок порушення зобов'язань по жодному з них;
- 2) не призводить до виникнення випадку порушення зобов'язань або мораторію у відношенні будь-якого із зобов'язань Управителя, так само як не приводить до накладення санкцій або створення обтяження відносно будь-якого майна або прав Управителя;

7.2.4. не відбулося жодного випадку й не виникло обставин, які могли б (після закінчення періоду часу, при направленні повідомлення, ухваленні рішення, здійсненні дій відповідно до інших вимог, або при одночасному настанні будь-яких з вищевказаних подій) являти собою Випадок порушення зобов'язань за цим Договором;

7.2.5. у цей час не пред'явлено жодні позови, не ведуться ніякі процесуальні дії та не порушені ніякі справи проти Управителя або відносно його майна, або що стосуються Управителя або його майна, так щоб вони при негативному для Управителя результаті їхнього розгляду кожна окремо або всі разом зробили б істотний негативний вплив на здатність Управителя виконувати свої зобов'язання за цим Договором; при цьому, наскільки відомо Управителю, немає підстав думати, що такого роду позови, процесуальні дії або справи можуть виникнути;

7.2.6. він не є особою, пов'язаною з Управителем у розумінні статті 3 Закону України "Про інститути спільного інвестування (пайові та корпоративні інвестиційні фонди)".

СТАТТЯ 8. ЗАГАЛЬНІ ЗБОРИ ВЛАСНИКІВ

8.1. *Скликання Загальних зборів.*

8.1.1. Якщо інше не встановлено цим Договором, Загальні збори Власників скликаються Управителем за власною ініціативою або на письмову вимогу Емітента або Власника або групи Власників, які в сукупності володіють не менш як 10 відсотків номінальної вартості Облігацій на дату подачі вимоги про скликання загальних зборів, відповідно до цієї статті й визначає час і місце Загальних зборів.

8.1.2. Управитель повинен скликати Загальні збори в разі настання Випадку порушення Емітентом зобов'язань за Облігаціями.

8.1.3. Скликання, проведення та прийняття рішень Загальними зборами здійснюються відповідно до цієї статті [та порядку (за наявності) скликання, проведення та

прийняття рішення загальними зборами власників звичайних іпотечних облігацій, який встановлюється Комісією].

8.2. Компетенція Загальних зборів.

8.2.1 До виключної компетенції Загальних зборів належить прийняття рішень з таких питань:

1) звільнення та заміна Управителя, призначення нового управителя Іпотечним покриттям, строки та умови передачі Іпотечного покриття в управління новому управителю крім випадків заміни Управителя й призначення нового управителя Іпотечним покриттям, здійснених Комісією відповідно до [статті 11] цього Договору;

2) збільшення винагороди Управителя;

3) звернення стягнення на Іпотечне покриття, визначення способу звернення стягнення, порушення щодо Емітента судового провадження, що має на меті задоволення вимог Власників, продажів Іпотечного покриття та порядок відшкодування витрат, пов'язаних із зверненням стягнення і продажем Іпотечного покриття в разі настання Випадку порушення Емітентом зобов'язань за Облігаціями;

4) надання згоди на внесення змін до цього Договору та/або до Проспекту крім змін, передбачених пунктом 9.1 цього Договору;

5) інші питання виключної компетенції Загальних зборів, зазначені в Проспекті.

8.2.2. До компетенції Загальних зборів також належить, без обмеження, прийняття рішень з таких питань:

1) звільнення та заміна Аудитора, призначення нового Аудитора;

2) будь-яке питання, дія або уповноваження, щодо якого Управитель попросить схвалення Власниками відповідно до пункту 10.4.2(1) цього Договору;

3) згода Власників на оплату Емітентом або з Іпотечного покриття додаткових витрат Управителя;

4) згода Власників на відшкодування збитків Управителя, що мають відношення до будь-якої дії або повноваження Управителя;

5) провадження, не передбачене пунктом 8.2.1(3) цього Договору, що має на меті задоволення вимог Власників у разі настання Випадку порушення Емітентом зобов'язань за Облігаціями;

6) надання згоди на внесення змін до цього Договору та/або до Проспекту, передбачених пунктом 9.1 цього Договору.

8.3. Інформація про проведення Загальних зборів.

8.3.1. Управитель зобов'язаний письмово повідомити кожного Власника про дату й місце проведення Загальних зборів, а також про їх порядок денний.

8.3.2. Повідомлення про проведення Загальних зборів повинне бути зроблене не пізніше ніж за 20 днів, і не раніше ніж за 180 днів до дати його проведення.

8.3.3. У зазначений термін повідомлення про проведення Загальних зборів повинне бути направлено кожній особі, зазначеній у списку осіб, що мають право на участь у Загальних зборах рекомендованим листом або вручене кожній із зазначених осіб або опубліковане в доступному для всіх Власників друкованому виданні, яке визначається _____.

8.3.4. Управитель має право додатково інформувати Власників про проведення Загальних зборів через інші засоби масової інформації (наприклад телебачення, радіо).

8.3.5. У повідомленні про проведення Загальних зборів повинні бути зазначені:

- 1) повне найменування Облігацій;
- 2) форма проведення Загальних зборів (збори або заочне голосування);
- 3) дата, місце, час проведення Загальних зборів або, у випадку проведення Загальних зборів у формі заочного голосування, дата закінчення прийому бюлетенів для голосування і поштова адреса, на яку повинні направлятися заповнені бюлетені;
- 4) дата складання списку Власників, що мають право на участь у Загальних зборах;
- 5) порядок денний Загальних зборів;
- 6) порядок ознайомлення з інформацією (матеріалами), що підлягає наданню Власникам у зв'язку із проведенням Загальних зборів, і адреса (адреси), за якого з нею можна ознайомитися.

8.3.6. До інформації (матеріалів), що підлягає наданню Власникам, які мають право на участь у Загальних зборах, у зв'язку із проведенням Загальних зборів, відносяться відомості про кандидата (кандидатів) у нового управителя Іпотечним покриттям, нового Аудитора, проект змін і доповнень, внесених у цей Договір та/або в Проспект, або проект Договору та/або в Проспекту в новій редакції, проекти рішень Загальних зборів.

8.3.7. Інформація (матеріали), передбачена пунктом 8.3.6 цього Договору, протягом 20 днів до проведення Загальних зборів повинна бути доступна особам, що мають право на участь у Загальних зборах, для ознайомлення в приміщенні Управителя та/або в інших місцях, адреси яких зазначені в повідомленні про проведення Загальних зборів. Зазначена інформація (матеріали) повинна бути доступна особам, що приймають участь у Загальних зборах, під час їх проведення.

8.3.8. Управитель зобов'язаний на вимогу особи, що має право на участь у Загальних зборах, надати йому копії зазначених документів. Плата, що стягується Управителем за надання даних копій, не може перевищувати витрати на їх виготовлення.

8.3.9. У випадку, якщо зареєстроване у реєстрі Власників особою є номінальний власник акцій, повідомлення про проведення Загальних зборів направляється за адресою номінального власника акцій, якщо в списку осіб, що мають право на участь у Загальних

зборах, не зазначена інша поштова адреса, на яку повинне направлятися повідомлення про проведення Загальних зборів, з метою направлення номінальним власником своїм клієнтам у порядку й строки, які встановлені чинним законодавством України або його договором з клієнтом.

8.3.10. У випадку вимоги Емітента, Власника або групи Власників про скликання Загальних зборів або про внесення питань до порядку денного Загальних зборів

1) вимога про скликання повинна містити формулювання кожного за пропонованого питання;

2) якщо Управитель необґрунтовано відмовився повідомляти Власників про дату і місце проведення Загального збору, а також про їх порядок денний протягом 20 днів після одержання Управителем вимоги Емітента, Власника або групи Власників про скликання Загальних зборів, Емітент, Власник або група Власників, відповідно, вправі визначати дату й місце проведення Загальних зборів та у такому випадку здійснюють положення цього пункту 8.3 про повідомління Власників і надання і доступність інформації для них.

8.4. Кворум Загальних зборів і порядок участі в Загальних зборах.

8.4.1. Загальні збори вважаються правомочними (мають кворум) якщо в них беруть участь Власники, які в сукупності володіють понад 50 відсотками голосів за всіма Облігаціями.

8.4.2. Список Власників, що мають право на участь у Загальних зборах, складається на підставі даних реєстру Власників. У випадку передачі Облігації після дати складання списку Власників, що мають право на участь у Загальних зборах, і до дати проведення Загальних зборів особа, яка включена в цей список, зобов'язана видати набувачеві Облігації доручення на голосування або голосувати на Загальних зборах відповідно до вказівок набувача Облігації. Зазначене правило застосовується також до кожного наступного випадку передачі Облігації.

8.4.3. Право на участь у Загальних зборах здійснюється Власником як особисто, так і через свого представника. Власник має право в будь-який час замінити свого представника на Загальних зборах або особисто взяти участь у Загальних зборах. Представник Власника на Загальних зборах діє відповідно до доручення, складеного в письмовій формі. Доручення на голосування повинне містити такі відомості про представника: ім'я або найменування, місце проживання або місце знаходження, паспортні дані.

8.4.4. Таким, що взяли участь у Загальних зборах, вважаються Власники, що зареєструвалися для участі у них, і Власники, бюлетені яких отримані не пізніше [2] днів до дати проведення Загальних зборів. Таким, що взяли участь у Загальних зборах, проведених у формі заочного голосування, вважаються Власники, бюлетені яких отримані до дати закінчення прийому бюлетенів.

8.4.5. Кожен Власник володіє кількістю голосів, пропорційною номінальній вартості належних йому Облігацій у загальній номінальній вартості Облігацій, [якщо інше не встановлено Проспектом], тобто кожна _____ номінальної вартості Облігацій надаю його Власникові один голос.

8.4.6. На Загальних зборах головує без права голосу уповноважений представник

Управителя або, у випадку скликання Загальних зборів Емітентом, Власником або групою Власників відповідно до пунктів 8.1.1 або 8.3.10(2) цього Договору, головує як тимчасовий голова без права голосу уповноважений представник Емітента, Власника або групи Власників, відповідно, і постійний голова і постійний секретар Загальних зборів обираються більшістю голосів Власників, які беруть участь у Загальних зборах.

8.5. Прийняття рішень Загальними зборами.

8.5.1. Рішення на Загальних зборах, крім рішень із Особливо істотних питань, приймаються [двома третинами] голосів Власників, які беруть участь у Загальних зборах. Рішення Особливо істотних питань на Загальних зборах, приймаються [80] відсотками голосів Власників за всіма Облігаціями.

8.5.2. Загальних зборів може бути прийняте без проведення зборів (спільної присутності Власників для обговорення питань порядку денного та прийняття рішень із питань, поставлених на голосування) шляхом проведення заочного голосування.

8.5.3. Будь-які рішення, що приймаються належним чином відповідно до цієї статті 8 є обов'язковими для кожного Власника, навіть якщо він не брав участь у Загальних зборах ані особисто ані через представника.

8.6. Проведення Загальних зборів і Лічильна комісія.

8.6.1. Управитель має право встановити розумні додаткові правила проведення Загальних зборів, якщо вони не суперечать положенням цього Договору та чинному законодавству України.

8.6.2. Управитель (у випадку скликання Загальних зборів Емітентом, Власником або групою Власників відповідно до пунктів 8.1. 1. або 8.3.10 (2) Емітент, Власник або група Власників, відповідно) повинен створити лічильну комісію (надалі іменується "**Лічильна комісія**"), кількісний і персональний склад якої затверджується Загальними зборами. У складі лічильної комісії не може бути менш трьох осіб. До лічильної комісії не можуть входити члени ради директорів Емітента, члени ревізійної комісії (ревізор) Емітента, члени колегіального виконавчого органу Емітента, одноособовий виконавчий органу Емітента.

8.6.3 Лічильна комісія перевіряє повноваження та реєструє осіб, що беруть участь у Загальних зборах, визначає кворум Загальних зборів, роз'яснює питання, що виникають у зв'язку з реалізацією Власниками (їхніми представниками) права голосу на Загальних зборах, роз'яснює порядок голосування з питань, що виносять на голосування, забезпечує встановлений порядок голосування та права Власників на участь у голосуванні, підраховує голоси та підводить підсумки голосування, складає протокол про підсумки голосування, передає в архів Управителя або Зберігачу (за наявності) бюлетені для голосування.

8.7. Бюлетень для голосування.

8.7.1. Голосування з питань порядку денного Загальних зборів може здійснюватися бюлетенями для голосування.

8.7.2. Голосування з питань порядку денного Загальних зборів, які проводяться у формі заочного голосування, здійснюються тільки бюлетенями для голосування.

8.7.3. При проведенні Загальних зборів, що здійснює голосування бюлетенями, і Загальних зборів у формі заочного голосування бюлетень для голосування повинен бути направлений або вручений кожному Власникові, зазначеному в списку Власників, що мають право на участь у Загальних зборах, не пізніше чим за 20 днів до проведення Загальних зборів. Опублікування в зазначений строк бланків бюлетенів для голосування також може здійснюватися в доступному для всіх Власників друкованому виданні, вказаному в Проспекті.

8.7.4. У бюлетені для голосування повинні бути зазначені:

1) повне найменування Облігацій і місце знаходження Управителя [або у випадку скликання Загальних зборів Емітентом або Власником або групою Власників відповідно до пункту 8.1.1 або 8.2.10(2) цього Договору місце знаходження Емітента або цього Власника або групи Власників, відповідно];

2) форма проведення Загальних зборів (збори або заочне голосування);

3) дата, місце, час проведення Загальних зборів і поштова адреса, на яку можуть направлятися заповнені бюлетені, або, у випадку проведення Загальних зборів у формі заочного голосування, дата закінчення прийому бюлетенів для голосування та поштова адреса, на яку повинні направлятися заповнені бюлетені;

4) формулювання рішень щодо кожного питання (ім'я кожного кандидата), голосування по якому здійснюється даним бюлетенем;

5) варіанти голосування щодо кожного питання порядку денного, висловлені формулюваннями "за", "проти" або "утримався";

6) згадування про те, що бюлетень для голосування повинен бути підписаний Власником.

8.7.5. При голосуванні, що здійснюється бюлетенями для голосування, зараховуються голоси за тими питаннями, щодо яких голосуючий залишив тільки один з можливих варіантів голосування. Бюлетені для голосування, заповнені з порушенням вищевказаної вимоги, визнаються недійсними, і голоси по питаннях, що містяться в них, не підраховуються. У випадку, якщо бюлетень для голосування містить кілька питань, поставлених на голосування, недотримання вищевказаної вимоги у відношенні до одного або декількох питань не спричиняє визнання бюлетеня для голосування недійсним у цілому.

8.8. *Протокол про підсумки голосування й протокол Загальних зборів.*

8.8.1. За підсумками голосування Лічильна комісія або Управитель складає протокол про підсумки голосування, що підписується членами Лічильної комісії. Протокол про підсумки голосування складається не пізніше 15 днів після закриття Загальних зборів або дати закінчення прийому бюлетенів при проведенні Загальних зборів у формі заочного голосування. Після складання протоколу про підсумки голосування та підписання протоколу Загальних зборів бюлетені для голосування опечатуються Лічильною комісією і

здаються в архів Управителя або Зберігачу (за наявності) на зберігання. Протокол про підсумки голосування підлягає прилученню до протоколу Загальних зборів, передбаченому пунктом 8.8.2. Рішення, прийняті Загальними зборами, а також підсумки голосування оголошують на Загальних зборах, у ході яких проводилося голосування, або доводять не пізніше 10 днів після складання протоколу про підсумки голосування у формі звіту про підсумки голосування до відомості осіб, включених у список осіб, що мають право на участь у Загальних зборах, у порядку, передбаченому для повідомлення про проведення Загальних зборів.

8.8.2. Протокол Загальних зборів складається не пізніше [15] днів після закриття Загальних зборів у двох екземплярах. Обидва екземпляри підписуються головою на Загальних зборах і секретарем Загальних зборів. У протоколі Загальних зборів указуються:

- 1) місце й час проведення Загальних зборів;
- 2) загальна кількість голосів, якими володіють всі Власники;
- 3) кількість голосів, якими володіють Власники, що беруть участь у Загальних зборах;
- 4) голова і секретар Загальних зборів, порядок денний Загальних зборів;
- 5) основні положення виступів, питання, поставлені на голосування, і підсумки голосування по них, рішення, прийняті зборами.

8.9. **Витрати Загальних зборів.** Всі витрати, пов'язані зі скликанням і проведенням загальних зборів Власників, відшкодовуються Емітентом. Якщо вони не можуть бути оплачені Емітентом, то відшкодовуються за рахунок майна, що становить Іпотечне покриття.

СТАТТЯ 9. ВНЕСЕННЯ ЗМІН У ДОГОВІР ТА/АБО ПРОСПЕКТ

9.1. Управитель та Емітент мають право укласти без згоди Власників додаткову угоду про внесення наступних змін у цей Договір та/або Проспект:

9.1.1 зміни з метою усунення будь-якої двозначності, суперечності або виправлення явної або доведеної помилки в них;

9.1.2. зміни, що підлягають внесенню у зв'язку з діями, обов'язок здійснення яких передбачена законодавством України; or

9.1.3. змін чисто формального, несуттєвого або технічного роду, які не утискають інтереси Власників.

9.2. Усі зміни у цьому Договорі та/або Проспекті крім змін, передбачених пунктами 9.1.1 або 9.1.2 або 9.1.3 цього Договору, вважаються прийнятими лише тоді, коли є відповідне рішення Власників, що приймається відповідно до пункту 8.5.1. цього Договору.

9.3. Емітент та Управитель зобов'язані підписати додаткову угоду про внесення змін до цього Договору та/або Проспекту, передбачених пунктом 9.2 цього Договору, протягом не більш ніж [5] днів з дати прийняття відповідного рішення.

9.4 Зміни, які вносяться в цей Договір та/або Проспект, набувають чинності за умови їхньої реєстрації Комісією.

9.5 Повідомлення про реєстрацію змін, які вносяться в цей Договір та/або Проспект, у тому числі повний текст цих змін, повинне бути опубліковане в періодичному друкованому виданні Комісії.

9.6 Зміни, які вносяться в цей Договір та/або Проспект і пов'язані зі збільшенням винагороди, що підлягає виплаті Управителю, Аудиторові, а також з розширенням видів витрат або збільшенням максимального розміру витрат, пов'язаних з довірчим управлінням Іпотечним покриттям, набувають чинності після закінчення місяця від дня опублікування повідомлення про їхню реєстрацію в друкованому виданні Комісії. Інші зміни, які вносяться в цей Договір та/або Проспект, набувають чинності у день публікації.

СТАТТЯ 10. ВІДПОВІДАЛЬНІСТЬ СТОРІН

10.1. **Визначення.** "Випадок порушення зобов'язань за цим Договором" означає кожний з таких випадків щодо Емітента або Управителя відповідно:

10.1.1. будь-яке запевнення, зроблене їм у статті 7 цього Договору, виявляється помилковим або істотно вводить в оману;

10.1.2. він не виконує, або неналежно виконує або не дотримує будь-яких своїх зобов'язань за цим Договором і таке порушення триває протягом [10] робочих днів з моменту відповідного письмового повідомлення Управителем або Емітентом;

10.1.3. звернення стягнення або накладення арешту на все або на істотну частину його майна;

10.1.4. він починає переговори з його кредиторами про відстрочку виконання, прощення боргу або іншу форму реструктуризації або припинення його заборгованості, по будь-яких його зобов'язаннях (включаючи, крім іншого, скликання ним зборів (комітетів) кредиторів;

10.1.5. відкликання або призупинення або закінчення строку дії його банківської ліцензії або ліцензії (свідоцтва) небанківської кредитної установи або ліцензії на здійснення професійної діяльності з управління іпотечним покриттям або припиняється будь-яка інша

згода, повноваження й дозвіл, що він зобов'язаний одержати відповідно до цього Договору;

10.1.6. звуження кола його операцій, які він має право робити відповідно до банківської ліцензії або свідоцтва та ліцензії небанківської кредитної установи або ліцензії на здійснення професійної діяльності з управління іпотечним покриттям або введення Національним банком України або іншим державним органом керування, контролю або нагляду тимчасових органів керування (включаючи, крім іншого, тимчасову адміністрацію та/або вповноваженого представника Національного банку України) або звернення вищевказаних органів державної влади, керування або нагляду до нього з вимогою вжити заходів по її фінансовому оздоровленню (включаючи, крім іншого, зміну структури активів, заміну органів керування або їхню реорганізацію);

10.1.7. його фінансовий стан відповідає критеріям неспроможності, встановленим чинним законодавством України;

10.1.8. він або треті особи здійснюють будь-які дії, спрямовані на порушення по згоду в справі про реорганізацію, ліквідацію, неспроможність (банкрутство) його (включаючи, крім іншого, (а) ухвалення рішення його відповідним органом або подання заяви до суду або прийняття судом до розгляду заяви про ліквідацію його, (б) звернення до арбітражного суду йз заявою про визнання його банкрутом, (в) починаються заходи у відношенні його санації, (г) призначення судом тимчасового керуючого, [конкурсного керуючого] або іншої аналогічної посадової особи відносно його;

10.1.9. установлення Національним банком України або іншим державним органом управління контролю або нагляду заборін або обмежень відносно його на виконання зобов'язань за цим Договором шляхом прийняття індивідуально-правового акту.

10.2. **Відповідальність перед Управителем та Емітентом.** У Випадку порушення зобов'язань за цим Договором Емітент та Управитель несуть майнову відповідальність один перед одним, відповідно до законодавства України та положень цього Договору.

10.3. **Відповідальність перед Власниками.** Управитель несе майнову відповідальність за збитки, що були спричинені Власникам внаслідок неналежного виконання Управителем його обов'язків, відповідно до законодавства України та положень цього Договору, у тому числі неправильного визначення суми коштів, що підлягають перерахуванню (виплаті) Власникам.

10.4. **Обмеження відповідальності.**

10.4.1 Управитель несе майнову відповідальність відповідно до пункту 10.3 цього Договору лише у розмірі реальних збитків Власників.

10.4.2. Управитель не несе відповідальності перед Власниками за порушення своїх зобов'язань за цим Договором, якщо воно сталося не з його вини. Управитель вважається невинуватим, якщо він доведе, що вжив всіх залежних від нього заходів для належного виконання зобов'язання. Управитель вважається таким, що вжив всіх залежних від нього заходів

1) якщо діє або звільняється від дії відповідно до вказівок (рішеннями) Загальних зборів або;

2) якщо він сумлінно здійснює або не здійснює будь-яку дію на основі письмової поради юристів або;

3) він сумлінно здійснює або не здійснює будь-яку дію на основі письмового затвердження матеріального факту вповноваженим представником Емітента або;

4) він відмовляється від здійснення або нездійснення будь-яких дій, на основі що йому не представле належні умови про відшкодування його витрат і збитків або;

5) він відмовляється від здійснення будь яких дій, на основі що вони не прямо передбачені цим Договором.

10.4.3. Борги за зобов'язаннями, що виникли у зв'язку з управлінням Іпотечним покриттям відповідно до пункту 10.3 цього Договору погашаються у першу чергу за рахунок майна Емітента та у разі його недостатності за рахунок Іпотечного покриття.

10.5. Обставини непереборної сили

10.5.1. Сторони не несуть відповідальності за невиконання або неналежне виконання кожного зі своїх обов'язків за цим Договором, якщо таке невиконання або неналежне виконання буде наслідком обставин непереборної сили, у тому числі, але не обмежуючись:

1) повені, землетрусу та інших стихійних лихий;

2) війни, воєнних дій, введення надзвичайного стану вповноваженими органами України, що мають загальнозастосадний характер;

3) рішення органів законодавчої та/або виконавчої влади України або Національного банку України, які унеможливають для однієї зі Сторін виконання її обов'язків за цим Договором; і інших аналогічних подій, що перебувають поза розумним передбаченням і контролем Сторін і що наступили після дати укладання цього Договору.

10.5.2. При настанні обставин, зазначених у пункті 10.5.1 цього Договору, Сторона, на якій поширюються такі обставини (надалі іменується "**Відправник повідомлення**") повинна протягом [3] робочих днів письмово сповістити про них іншу Сторону (надалі іменується "**Одержувач повідомлення**"). Повідомлення повинне містити дані про характер обставин, а також документи, що засвідчують наявність таких обставин.

10.5.3. Якщо Відправник повідомлення не направляє або несвоєчасно направляє повідомлення, передбачене пунктом 10.5.2 цього Договору, він не має право надалі посилатися на такі обставини, як на обставини, що звільняють його від відповідальності.

СТАТТЯ 11. ПІДСТАВИ ТА ПОРЯДОК ЗАМІНИ УПРАВИТЕЛЯ

11.1. Заміна Управителя може бути здійснена на вимогу Комісії або Управителем за власною ініціативою.

11.2. Комісія має право прийняти рішення про заміну Управителя у таких випадках:

11.2.1. Якщо стали відомі факти неналежного виконання Управителем своїх обов'язків відповідно до Закону, Положення та цього Договору, у результаті чого зафіксовані порушення законних прав та інтересів Власників, які призвели до збитків, які Управитель не в змозі погасити або погашення яких уникає;

11.2.2. Управитель порушив обмеження щодо його діяльності, встановлені пунктами 16.1.-16.2., 16.5.-16.9. Положення;

11.2.3. У разі дострокового відкликання або припинення строку дії ліцензії Управителя на здійснення професійної діяльності з управління іпотечним покриттям;

11.2.4. У разі призначення тимчасової адміністрації Управителя або прийняття рішення про ліквідацію юридичної особи Управителя;

11.2.5. На вимогу Власників, які у сукупності володіють більш ніж 50 відсотків номінальної вартості облігацій відповідного випуску.

11.2.6 У разі прийняття рішення про заміну Управителя, Комісія одночасно визначає кандидатуру нового управителя Іпотечним покриттям за поданням Емітента або Власників.

11.3. Призначення нового управителем Іпотечним покриттям підлягає затвердженню Загальним збором.

11.4. Протягом не більш ніж [10] робочих днів з дня отримання вимоги Комісії або Управителя про заміну Управителя та призначення і затвердження Загальними зборами нового управителя Іпотечним покриттям Емітент зобов'язаний достроково розірвати цей Договір з Управителем та укласти договір про управління Іпотечним покриттям з новим управителем на умовах, аналогічних тим, на яких був укладений цей Договір з Управителем.

11.5. Управитель продовжує виконувати свої обов'язки до укладення договору з новим управителем Іпотечним покриттям. У разі дострокового припинення повноважень, Управитель зобов'язаний передати всі документи та майно, що перебувають у його володінні у зв'язку з виконанням ним обов'язків за цим договором, новому управителю Іпотечним покриттям у строк, що не перевищує [10] робочих днів з дня розірвання цього Договору.

11.6. Новий управитель Іпотечним покриттям є правонаступником прав і обов'язків за договорами з Аудитором та Зберігачем (за наявності), які були укладені Управителем.

11.7. У десятиденний строк з дня укладення договору з новим управителем Іпотечним покриттям Емітент зобов'язаний письмово повідомити усіх Власників про заміну Управителя та призначення нового управителя Іпотечним покриттям.

СТАТТЯ 12. ВИРІШЕННЯ СПОРІВ

Усі спори, що пов'язані із цим Договором, його укладанням або такі, що виникають в процесі виконання умов цього Договору, вирішуються шляхом переговорів між представниками Сторін. Якщо спір неможливо вирішити шляхом переговорів, він вирішується в судовому порядку, визначеному чинним законодавством України.

СТАТТЯ 13. ПОВІДОМЛЕННЯ

13.1. Всі повідомлення, документи та інші сповіщення, які повинні бути направлені будь-якою Стороною в рамках цього Договору іншій Стороні, можуть направлятися кур'єрською службою або по факсу або по телексу або по системі S.W.I.F.T. відповідно до адрес і реквізитів, зазначених у статті 16.

13.2. Повідомлення, документ або інше сповіщення вважається отриманим:

13.2.2. при відправленні кур'єрською службою - у момент його одержання адресатом або спроби його вручення кур'єрською службою адресатові;

13.2.3. при відправленні по факсу - у момент одержання відправником підтвердження про відправлення факсу;

13.2.4. при відправленні по телексу - при одержанні автовідповіді;

13.2.5. при відправленні по системі S.W.I.F.T. - у момент часу, що зазначений у самому повідомленні.

13.3. Сторони зобов'язуються негайно письмово повідомляти один одного про зміну своїх поштових адрес та адрес (реквізитів) для повідомлень. У протилежному випадку вважається, що Сторона, яка направила повідомлення на колишню адресу (реквізити), відправила повідомлення належним чином.

СТАТТЯ 14. СТРОК ДІЇ ДОГОВОРУ

14.1. Цей Договір набуває чинності з моменту його підписання Емітентом та Управителем і діє протягом _____ років, але строк дії цього Договору не може бути меншим строку застави Іпотечного покриття та строку обігу Облігацій;

14.2 Дострокове розірвання цього Договору допускається виключно у разі прийняття рішення про заміну Управителя.

СТАТТЯ 15. ІНШІ УМОВИ

15.1. Якщо у будь-який момент будь-яке положення цього Договору стає в будь-якому відношенні незаконним, недійсним або не має позовної чинності відповідно до чинного законодавства України, це жодним чином не зачіпає, не наносить збитку й не впливає на законність, дійсність або наявність позовної чинності інших положень цього Договору, так

само як і на законність, дійсність або позовну чинність такого положення в іншій юрисдикції.

15.2. Після підписання цього Договору всі попередні переговори за ним, листування, попередні угоди та протоколи про наміри з питань, що так чи інакше стосуються цього Договору, втрачають юридичну силу.

15.3. При укладанні цього Договору жодна із сторін не покладалася на які-небудь запевнення або гарантії іншої Сторони, за винятком тих, які прямо викладені в цьому Договорі або на які в даному Договорі є пряме посилання.

Цей Договір має переважну чинність перед раніше досягнутими домовленостями між Сторонами відносно управління Іпотечним покриттям.

15.4. Цей Договір обов'язковий для Сторін, а також для їхніх законних правонаступників, ліквідаторів, тимчасових адміністраторів і представників (за наявності).

15.5. Якщо інше не передбачене цим Договором, Управитель здійснює функції з управління Іпотечним покриттям особисто і не має права за власною ініціативою передовіряти ці функції іншим особам, але Управитель має право делегувати афілійованій особі свої технічні обов'язки Управителя за цим Договором у будь-якій їхній частині.

СТАТТЯ 16. МІСЦЕЗНАХОДЖЕННЯ ТА РЕКВІЗИТИ СТОРІН Й ІНШИХ ОСІБ**Емітент**

повне найменування

місцезнаходження

ідентифікаційний код

банківські реквізити

номер, дата видачі та строк дії банківської ліцензії або свідоцтва та ліцензії небанківської кредитної установи**Управитель**

повне найменування

місцезнаходження

ідентифікаційний код

банківські реквізити

номер, дата видачі та строк дії ліцензії на здійснення професійної діяльності з управління іпотечним покриттям**Аудитор**

повне найменування

місцезнаходження

ідентифікаційний код

банківські реквізити

номер, дата видачі та строк дії сертифікату (свідоцтва) аудитора**Резервна обслуговуюча установа
[за наявності]**

повне найменування

місцезнаходження

ідентифікаційний код

банківські реквізити

номер, дата видачі та строк дії ліцензії на здійснення професійної діяльності з обслуговування іпотечних активів**Зберігач [за наявності]**

повне найменування

місцезнаходження

ідентифікаційний код

банківські реквізити



ПІДПИСИ СТОРІН

За Емітента

За Управителя

Ім'я:
Посада:

Ім'я:
Посада:

Ім'я:
Посада:

Ім'я:
Посада:

М.П.

М.П.

ATTACHMENT 8

Strategic and Operational Options for a Ukrainian Municipal Finance Facility

**Access to Credit
Initiative**

USAID/Ukraine



Initial Boundaries of MFF design

- Capitalized by Government of Ukraine (GOU) and, perhaps, international finance institutions
- Raises lendable funds by borrowing in domestic financial markets
- Does not carry a GOU sovereign guarantee
- Does not only “on-lend” donor funds
- Lends (or guarantees loans) to cities and enterprises
- Indemnity fund to protect investors from loan defaults

Key Criteria for MFF

- MFF's creditworthiness and use of transparent, objective lending criteria are ***critical***.
- MFF can be a focal point for local government financial expertise and for promoting needed reforms at local level.
- A reserve fund is needed to protect investors who buy the MFF's bonds.

MFF Criteria (continued)

- MFF's structure must promote professional management, and transparent operations.
- MFF's operation must be insulated from political pressure.
- MFF should be structured to facilitate equity investments by cities and subsequently by other investors, such as DFIs and private sources.

MFF Criteria (continued)

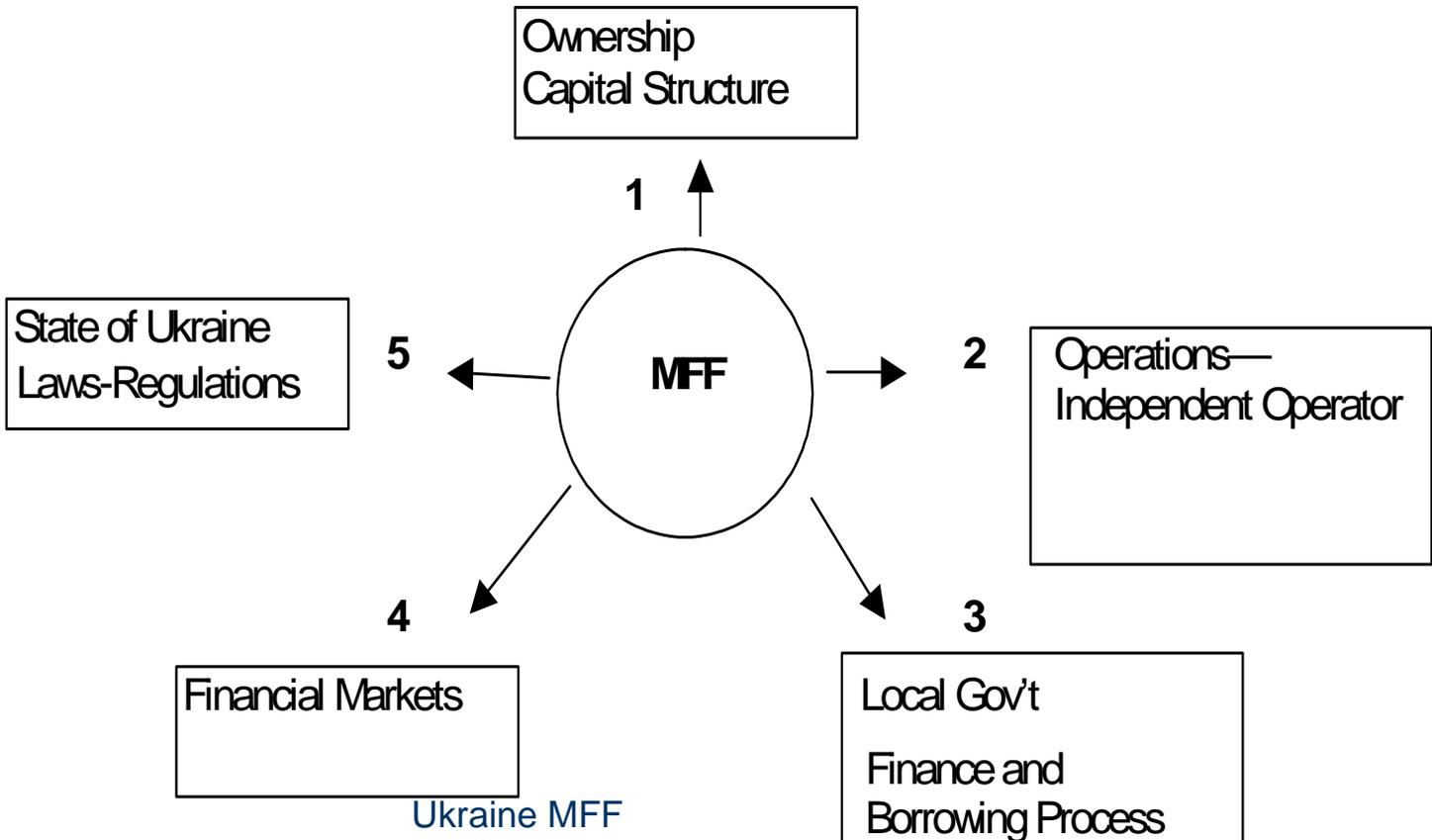
- Formation is possible under existing law.
- But, special legislation is needed to best start the MFF and set its public purpose, basis of ownership, corporate powers, and required regulatory and tax treatments.
- Special legislation should give MFF powers to evolve over time as the Ukrainian governmental and financial structure changes.

Scope of this Options Report

- Report explores various options for the MFF's design and operation and their implications.
- “Ideal” model of the MFF is measured against the many practical barriers and problems now encountered in Ukraine.
- MFF tailored to fit Ukrainian environment, but that setting also must change for the MFF to succeed. MFF can help reforms occur.

Sequence of Analysis

Figure 1: MFF Structural and Operational Issues and Options



Ownership and Capital

- Basic Components
 - Equity (ownership)
 - Debt (borrowed funds)
- Financial balance between equity and debt needs to be maintained
- Desire to have diversified MFF ownership that is not under any single dominant control
- But, MFF needs GOU capital to start up

Start up Capital for MFF

- Our review is that DFIs and private capital are unlikely to invest in MFF until it is (a) started and (b) underlying relevant laws are changed.
- Means that GOU will need to provide start up capital and also change relevant laws.
- “Buy in” of local government to MFF is needed.
- Over time, DFI and private capital investment is possible, but investors are wary.

Leveraging Capital Resources

- A key objective of MFF is to “leverage” its equity funds by borrowing.
- This allows MFF to borrow and then reinvest these lendable funds at higher rates of return, which thus multiplies its lendable amounts above its equity.
- MFF’s ability to do this depends on the quality of its loan portfolio and credit enhancements.

Options for local government “Buy In” of MFF capital

Options for Local Government Equity Ownership

- a. GOU permits/induces local governments to use infrastructure grants for MFF equity purchase.
- b. MFF provides cities and communal enterprises with financing to buy equity shares.
- c. GOU enables cities to borrow in order to buy MFF equity investment.

Initial Financing

- a. GOU invests UAH 100M to provide MFF with equity base and attract investment from other partners.
- b. In addition to GOU equity investment, GOU creates fund for MFF debt reserve. Income from the reserve reduces MFF loan interest rates.
- c. GOU does not invest equity, but creates fund for MFF loss reserve that also provides program loan rate subsidy

Management and Operations

- The MFF should have a small, specialized staff
- The MFF may contract out for many services, including many of its day-to-day financial operations to independent operator.
- Contract may be for support by a qualified firm or for a specialized (dedicated) group that works only for MFF.
- Decision on staff versus contractor support is left up to Board and Director.

Local Government Loans and Guarantees

- MFF would loan to eligible cities and their enterprises and possibly to private providers of infrastructure.
- Eligibility would be based on creditworthiness, the borrower's ability to support debt repayments
- In the process of lending, there would be many conditions that would help reform local finance
- A key attraction would be receiving longer-term loans that would have lower annual debt service (principal and interest) payments.
- MFF loan guarantees could also be provided.

Local Government Borrowing Powers

- Local governments now are generally not able to provide acceptable loan security.
- Laws need to be changed to provide better security for financing needed improvements, including those needed by enterprises.
- Special exceptions for MFF lending are needed if the general local government borrowing laws are not changed.

Options for improved local government security

- a. Permit limited intercept of “Basket 2” revenues.
- b. Permit pledge of future revenues to secure debt service obligations (principal and interest).
- c. Permit debt service due MFF to be paid first by State Treasury. Debt service is a protected expenditure.
- d. Provide MFF with ready access to city properties pledged as collateral for MFF loans.
- e. Permit banks to hold city accounts containing bond proceeds, reserves, and invested funds.

MFF Relationship to Ukrainian Markets

- Ukrainian capital markets are immature and volatile. Short maturities and put options.
- However, there is bond market activity, including municipal bonds.
- The Pillar Two pension reform should mean large inflow of investment funds.
- MFF could be an important high-quality, long-term issuer and help develop bond market.

Legal and Regulatory Considerations

- As the report identifies, there is a long list of needed powers for the MFF
- Changes are needed in the local government borrowing laws and other related legislation
- MFF will need special regulatory and tax treatments
- Aim is to provide MFF with the powers it needs to be effective as a financial intermediary.

Special Regulatory/Tax Treatment

- Tax Status: MFF income needs to be exempt from taxation.
- Capital Adequacy: MFF debt subject to the same capital adequacy as Ukrainian local debt.
- Local government funds held as debt service funds, reserve funds and construction funds could be held in commercial bank accounts.
- Bond Amortization: Municipal bonds purchased and issued by MFF can have amortization of principal.
- MFF shall have enhanced debt remedial powers.

Local Government Borrowing Law Changes ...

- No credit ratings required for loans from the MFF.
- Funding requirements for municipal guarantees would be eliminated and allow guarantees for utilities not wholly owned by the municipality.
- Exemption from the proposed 12-month ban on municipal borrowing prior to an election.
- Exemption from the proposed five-year ban on municipal borrowing after a default, or at a minimum limiting the ban to “new” borrowings.

Local Government Borrowing Law Changes ... (continued)

- Calculation of the proposed municipal debt limitation.
- Municipalities have authority to pledge future revenues to MFF.
- Authority for a representative to act on behalf of MFF bondholders.
- Ministry of Finance approval of municipal borrowing from MFF is limited to “legal validity.”
- Ministry of Finance must respond to a request for borrowing approval within ten business days.
- Debt service, including both principal and interest, is a priority “protected” expenditure in the municipal budget.

Moving Ahead: Business Plan

- Examination above set out key policy options
- Once key decisions are made, need to formulate MFF's business plan
- Business plan goes into greater detail in terms demand for financing, capital structure, operations, and so forth.
- This report can serve as basis for preliminary plan.
- Formal business plan needs to show sign of positive commitment by GOU and will evolve in discussions with possible investors.

Next Steps ...

- GOU must take steps to provide for basic structure and initial capital for MFF
- MFF also requires necessary changes in local government borrowing laws and related laws.
- Added DFI and private investment in MFF will not occur until (1) basic ownership/financing plan is decided upon and (2) laws provide of appropriate security.
- Positive GOU next steps must be taken.

Three Optional Steps

- GOU can take one of three strategic steps to form the MFF. The options are as follows:
 - A. State-owned MFF company is corporatized under special law.
 - B. Cities, DFI's and private investors form the MFF. State buys shares.
 - C. Cities and other investors form the MFF. State creates enabling environment, but does not invest.

Next Strategic Steps: Option “A”

- A. State-owned MFF company is corporatized under special law.
- GOU investment creates a State-owned MFF. State ownership of UAH 100 million converts to mixed ownership, under special law and sector reforms.
 - GOU facilitates local government equity investment in MFF by making legal and regulatory changes.
 - State-owned company is corporatized under special MFF legislation, with mixed ownership. GOU share value diminishes to 25 percent or less.

Next Strategic Steps: Option “B”

- B. Cities, DFI's and private investors form MFF. State buys shares.*
- State makes commitment to invest equity stake in MFF, and enacts special MFF law. Stimulates creation of mixed-ownership MFF.
 - MFF forms under special law, sector reforms are accomplished, and State buys 25% (up to UAH 100 Million) interest.

Next Strategic Steps: Option “C”

C. Cities and other investors form the MFF. State creates enabling environment, but does not invest.

- Special legislation and sector reform stimulates creation of MFF but with no State equity investment.
- GOU appropriates UAH 10 million for MFF planning.

Conclusion

- The MFF concept has four key requirements:
 - It must have initial sponsor and capital to start.
 - It must lend only to creditworthy borrowers.
 - It must be apolitical and professionally run.
 - It must operate under State laws and regulations that accommodate its operation.
- If the above requirements are met, the MFF can be successfully created. But all four factors need to be satisfied.

ATTACHMENT 9

ATCI

First Deputy Minister A.A. Maksyuta

Kyiv, September 13, 2006

The Access to Credit Initiative In Ukraine

Sponsored by US Agency for International Development



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FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
Mortgage, Municipal Finance, Leasing, Credit Bureau

ATCI

ATCI is about Building Investment Capacity and Wealth By Developing Primary Markets and Secondary Trade In:

- **The Mortgage Industry**
- **Financial Leasing**
- **Municipal Bond Market**

Facilitated by Development of Credit Information Facilities (Credit Bureaus)

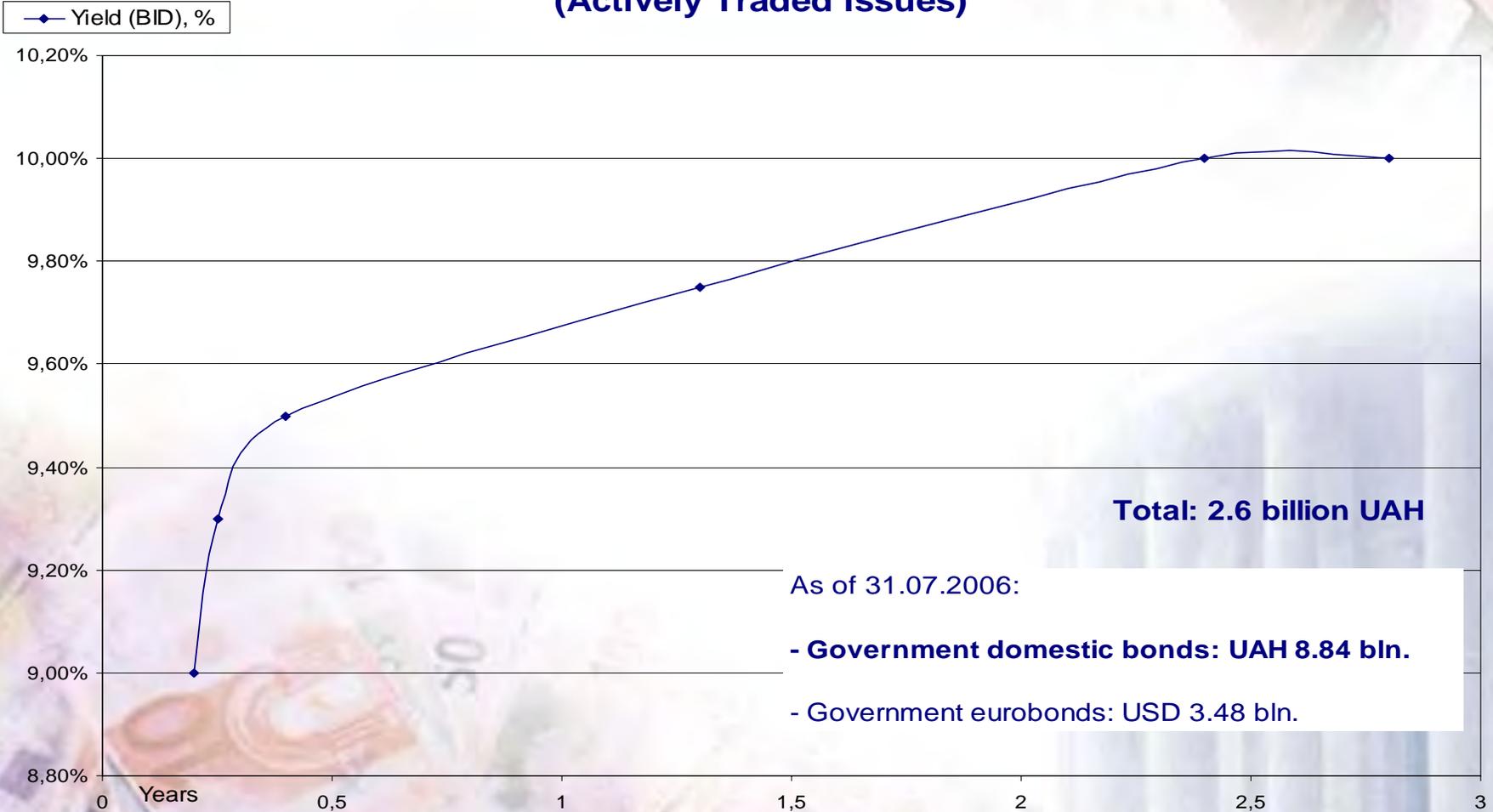


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Domestic Government Yield Curve - Yield to Maturity (Actively Traded Issues)



Total: 2.6 billion UAH

As of 31.07.2006:

- **Government domestic bonds: UAH 8.84 bln.**

- **Government eurobonds: USD 3.48 bln.**

Source: Ukrсіб weekly bond market review, Aug 21-25 2006

As of 31.07.2006 (Source: Minfin, cbonds)

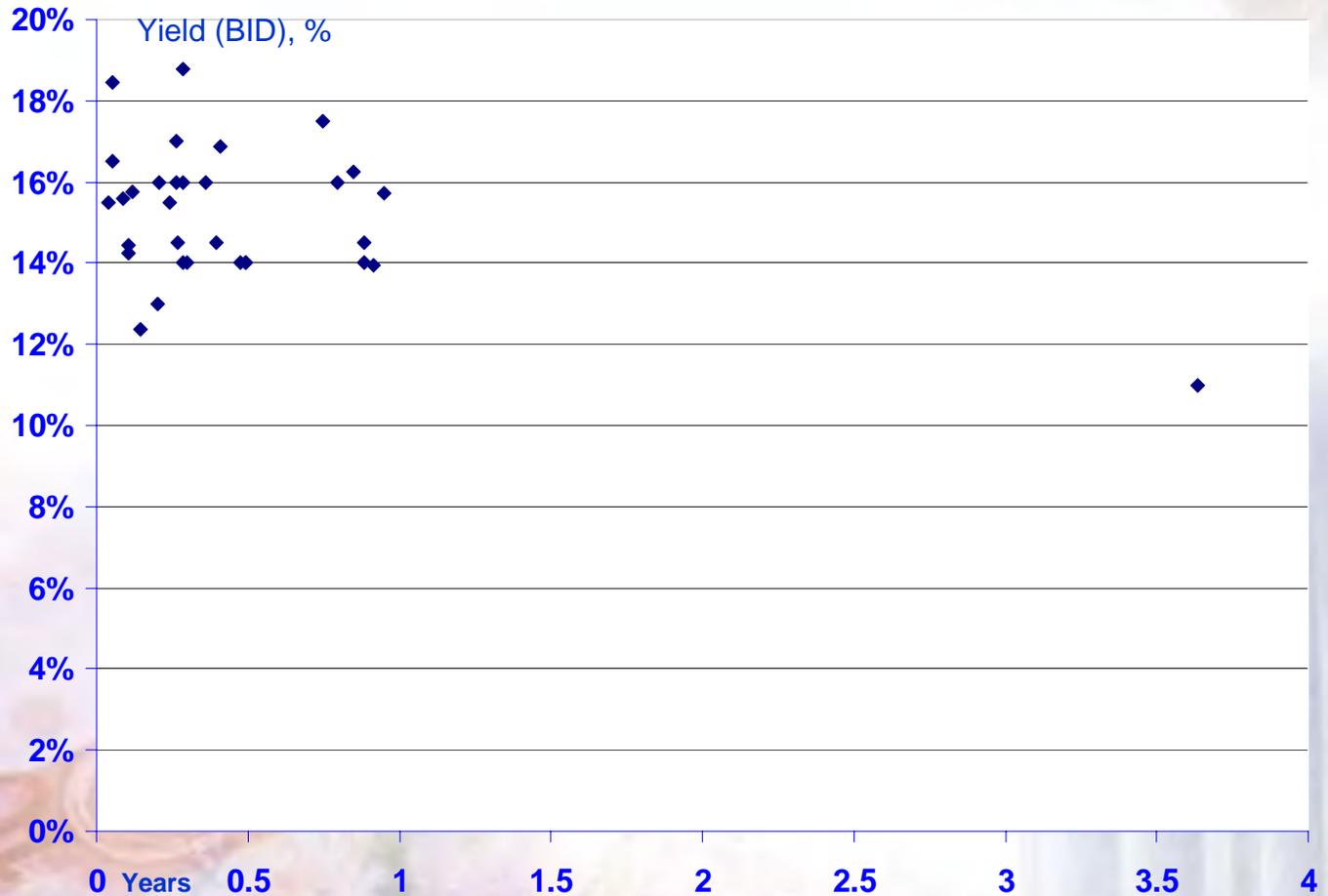


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Corporate Bonds - Yield to Put



Source: Ukrсіб weekly bond market review, Aug 21-25 2006

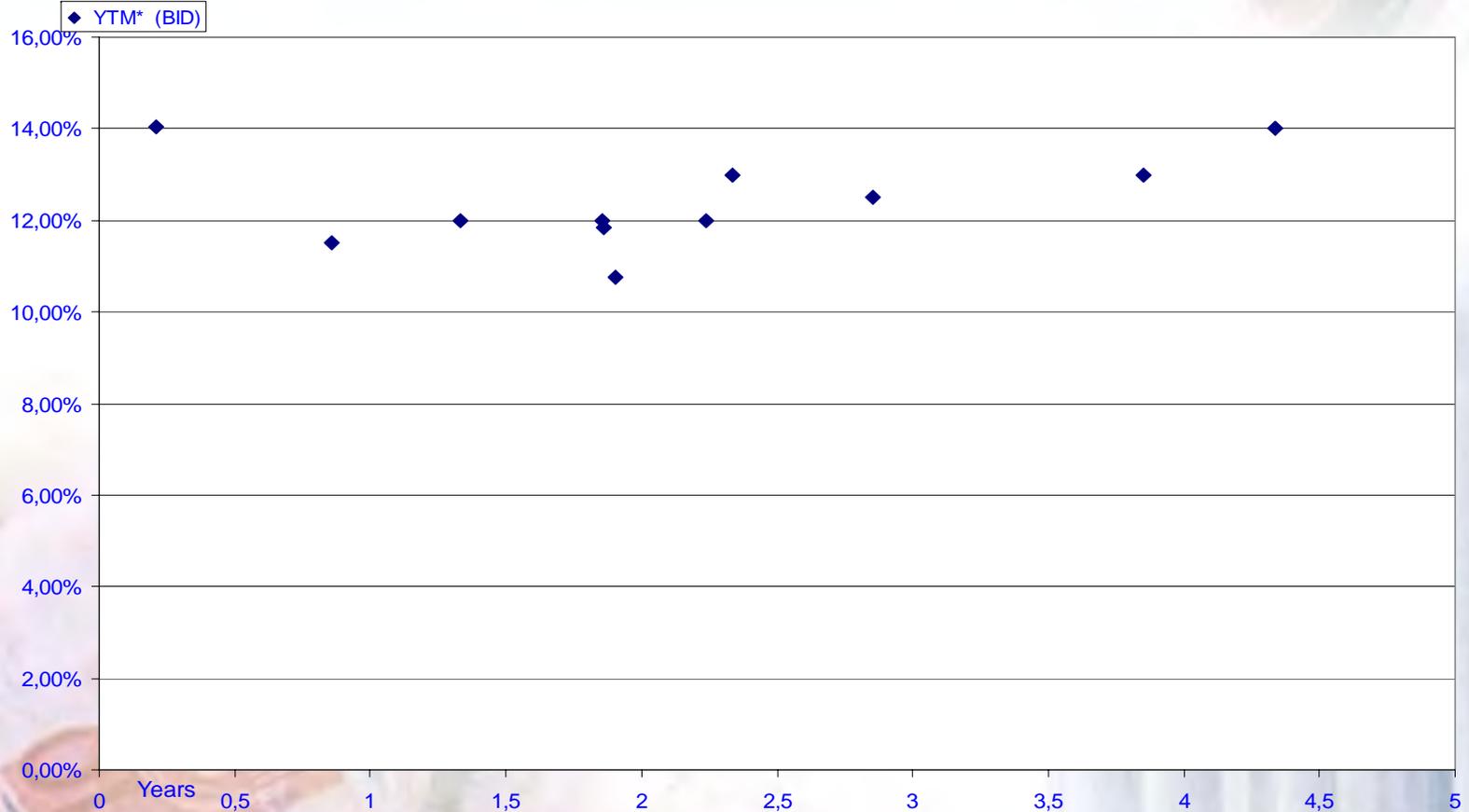


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Municipal Bonds (Yield to Maturity / Yield to Put)



Source: Uksrib weekly bond market review, Aug 21-25 2006



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Development of the Fixed-income Market

BENCHMARK PRICING NEEDED FOR:

- Corporate bonds
- Mortgage-backed bonds
- Securitized assets
- Municipal bonds

OBJECTIVE: BUILDING A LONG -TERM GOVERNMENT YIELD CURVE

- GOVERNMENT BOND ISSUANCE
 - Ten and twenty year maturities
 - Inflation indexed



Mortgage Component

DEVELOPMENT OF:

- Primary market
- Secondary market
- Associated market infrastructure



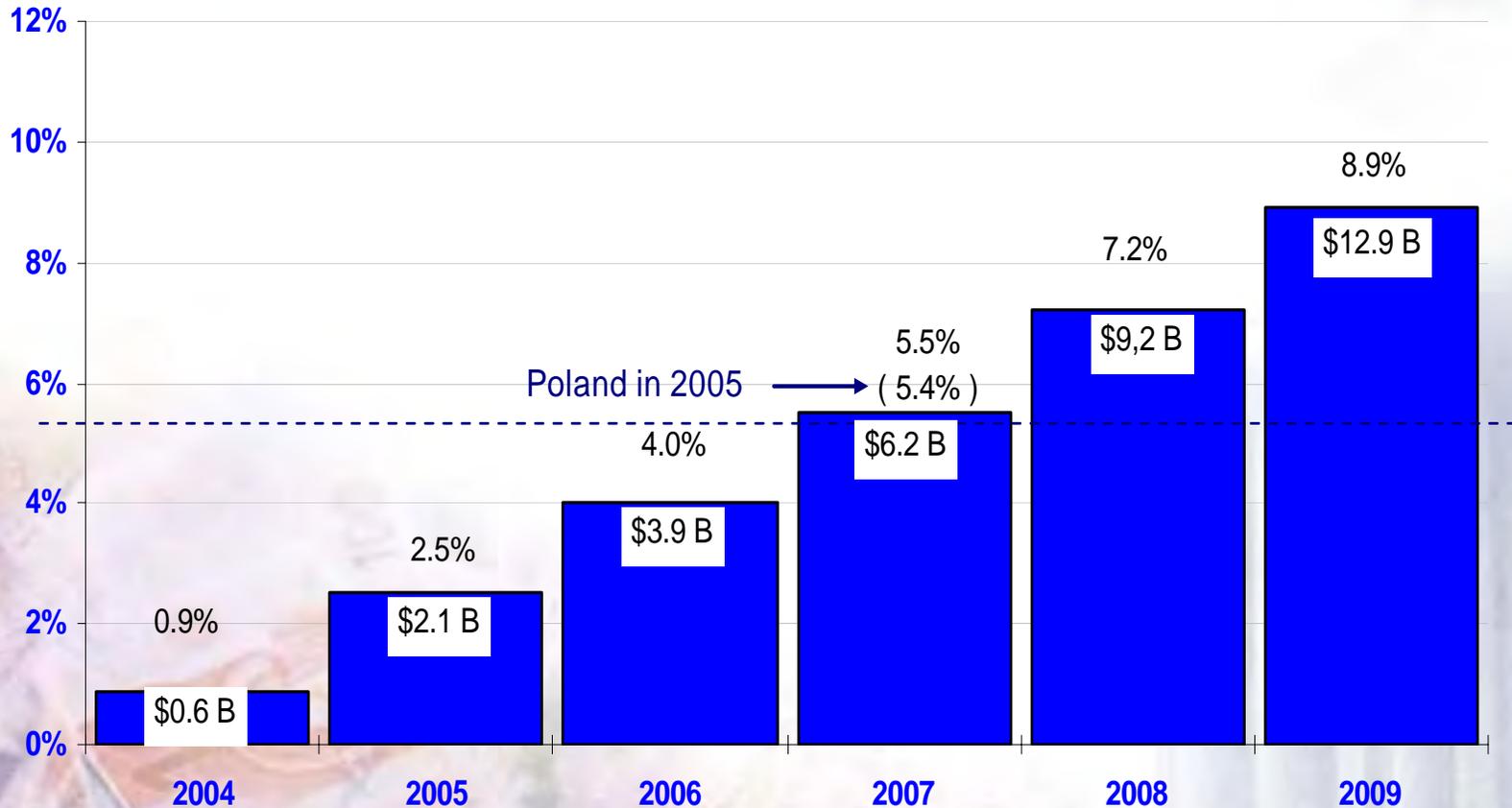
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Mortgage Lending as a percentage of GDP

(In billions of US\$, 2004-2009)



Source: Ukrainian National Mortgage Association



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Mortgage

Secondary Market

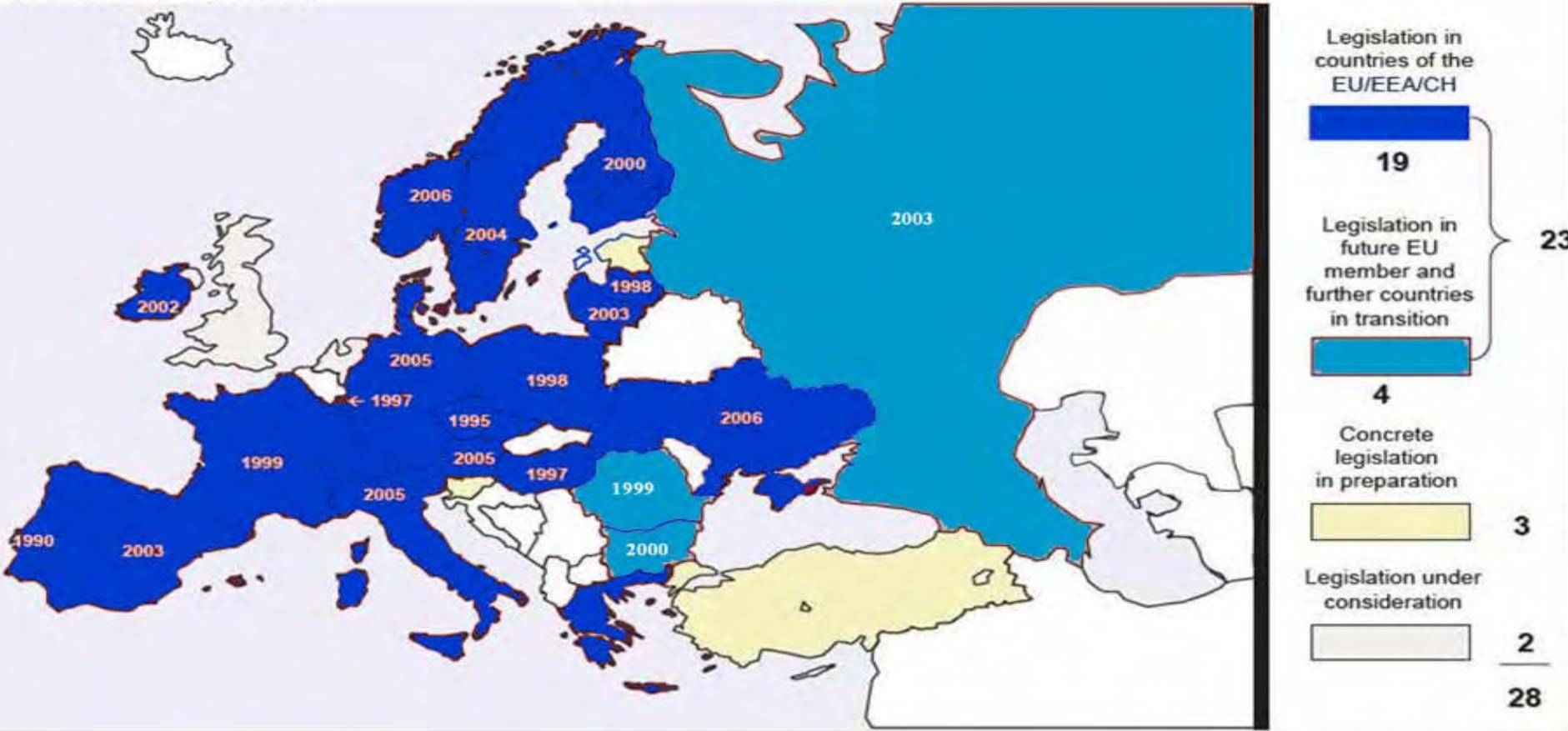
TO DATE:

- ESTABLISHMENT OF STATE MORTGAGE INSTITUTION
- PASSAGE OF THE MORTGAGE BOND LAW
- CONFIDENTIALITY AGREEMENTS SIGNED:
UKRGAZBANK; UKRSIBBANK; UKRSOTSBANK;
PRIVATBANK; STATE MORTGAGE INSTITUTION



CB Legislation

Geographical Overview - Covered Bond Legislation in Europe
(as of January 2006)



Mortgage

Secondary Market

TO BE ACCOMPLISHED:

- **ADOPTION OF IMPLEMENTING REGULATIONS**
- **ISSUANCE OF AT LEAST THREE PILOT MORTGAGE BONDS**
- **LIQUIDITY FACILITY (SMI)**



Mortgage

Associated Market Infrastructure

TO DATE:

- **COMPLETED ASSESSMENT OF REAL ESTATE SALES PRACTITIONERS AND APPRAISERS**
- **COMPLETED ASSESSMENT OF MORTGAGE TERM LIFE**



Mortgage Associated Market Infrastructure

TO BE ACCOMPLISHED:

- **CERTIFICATION OF APPRAISERS IN ACCORDANCE WITH IVSC STANDARDS**
- **MLS PRACTICES FOR PRICING TRANSPARENCY**
- **COMPETITIVE MARKET FOR MORTGAGE TERM – LIFE INSURANCE**



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Credit Bureau Component

experian



First National Bureau of Credit Histories



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Credit Bureau

TO DATE:

- **PASSAGE OF CREDIT BUREAU LAW**
- **CREDIT BUREAU ESTABLISHED**
- **BUSINESS PLAN PRODUCED**
- **TENDER DOCUMENTS DRAFTED**
- **INTERNATIONAL OPERATOR (CREDITINFO) SELECTED BY FNBCH**



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Leasing Component



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Leasing Volumes in Neighboring Countries (in billions of Euros)

Source: Leaseurope

Country	New Leasing Volume in 2005
UK	55.8
Germany	49.3
Italy	44.2
Russia	6.8
Austria	6.7
Hungary	4.7
Poland	4.0
Czech Republic	4.0
Slovakia	1.5
Romania	1.1
Estonia	1.0
Ukraine	0.24



Leasing

Main Impediments:

- Lack of capital
- Lack of know-how



Leasing

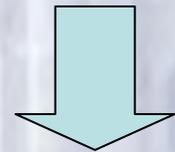
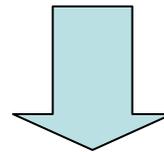
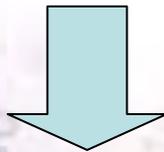
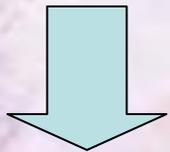
What are we doing?

**Importing
Capital and
Know-How**

**Building New
and Renovating
Existing Leasing
Companies**

**Professional
Development**

**Market
Development**



**Building a sustainable and competitive
leasing industry in Ukraine**

**Enabling
Environment**



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Leasing

Importing Capital
and Know-How

Ukraine

SG Equipment
Finance and ALD
Automotive
(France) entering
the market in Fall
2006

Element Leasing (Russia) started
operations July 2006

Orix Leasing
(Japan) planning
due diligence

HVB Leasing (Germany)
entering market in Fall 2006

Raiffeisen Leasing Aval (Austria)
started operations July 2006

Garanti Leasing (Turkey)
planning due diligence



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Leasing

PROFESSIONAL DEVELOPMENT / CLS PROGRAM

- Development of CLS program with Ukrleasing Association, IFC and leasing industry
- Targeted training for bankers: Co-sponsored conference on improving conditions of debt funding with NBU, UAB and IFC
- Targeted training for lessors on agricultural leasing



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Municipal Finance Component

*Lighting up Ivano-Frankivsk
UAH 5.5 million, 12%, 5 years*



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ATCI

Municipal Finance Component

*Lighting up Ivano-Frankivsk
UAH 5.5 million, 12%, 5 years*



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ATCI Municipal Finance Key Points

Bond issuance is becoming more popular with small-medium cities

Creditworthiness of cities is poorly understood

Investors may assume State backing

Small bonds are inefficient

Municipal Finance Facility would:

- **seriously evaluate city creditworthiness**
- **be an efficient source of capital**
- **deliver capital from the market, not State budget**
- **insulate Ministry of Finance from pressure to cure potential defaults**



Municipal Finance

- **BOND CAPACITY ASSESSMENTS:**

Komsomolsk (pop. 51,000)

Korasten (pop. 66,600)

Cherkasy (pop. 295,000)

Berdyansk (pop. 121,700) – next to issue

Ivano-Frankivsk (pop. 218,000) – issued

Lugansk (pop. 452,000) – in process

- **CREDIT SCREENING OF TWENTY UTILITIES**



Domestic Municipal Bonds Issued or Planned

City and Population	Bond Status	ATCI Role
1. Ivano-Frankivsk (pop. 219k)	Bond sale 2/2006 UAH 5.5 M—street lighting	Yes
2. Cherkasy (pop. 293k)	Bond sale 12/2005 UAH 5M - roads	Yes – initially
3. Odessa (pop. 1M)	Bond sale 12/2005	None
4. Berdyansk (pop. 119k)	Bond sale expected November 2006 Up to UAH 10M for roads	Yes
5. Vinnytsa (pop. 360k)	Bond sale UAH 20M 06/2006 UAH 20M--roads	None
6. Komsomolsk (pop. 51k)	Bond sale UAH 8M 07-08/2006 12% 5 yrs.	Yes - initially
7. Korosten (pop. 65k)	City wanted to issue bonds, but ATCI assessment showed no capacity in 2005.	Yes
8. Lugansk (pop. 452,000)	City Council approved bond of up to UAH 30 M in July 2006	Yes
9. Rivne (pop. 248k)	City wants to issue bonds for wastewater treatment facility, up to UAH 30 M	Yes



Domestic Municipal Bonds Issued or Planned (continued)

City (Republic) and Population	Bond Status	ATCI Role
10. Kamyanets-Podilsky (pop. 99k)	Secured a credit rating in 05/2006 Proposes to issue UAH 20M.	None
11. Donetsk (pop. 1M)	Rating update 06/2007 City Council has approved UAH 50M.	None
12. Sumy (pop. 282k)	City is discussing bond issuance with Kreschatik Bank.	None
13. Dnipropetrovsk (pop. 1.1M)	Rating issued 2006. Proposed UAH 50M, for heat utility upgrades	None
14. Brovary (pop. 88k)	Secured credit rating in March 2006	None
15. Sevastopol (pop. 340k)	Credit rating has been continuously in effect since 2004.	None
16. Autonomous Republic of Crimea	S&P rated Crimea on July 31 2006 (B+, uaA+). S&P states that no borrowing is planned for 2006, but "Potential issues of small domestic bonds and of Eurobonds for up to \$45 million-\$50 million (up to 25% of budget revenues) in 2007-2008 are under discussion."	None.



All Domestic Municipal Bonds Issued From Odessa Default in 1998* through September 2005

City and Population	Bond Status
1. Donetsk (1M)	12-2004 UAH 20M
2. Donetsk	Approx 9-2005 UAH 45M
3. Kyiv (2.6M)	11-2003 UAH 150M
4. Zaporizhya (815k)	01-2004 UAH 25M
5. Zaporizhya	Approx 09-2005 UAH 75M
6. Kharkiv (1.5M)	07-2005 UAH 100M



Background: MFF Development in Ukraine

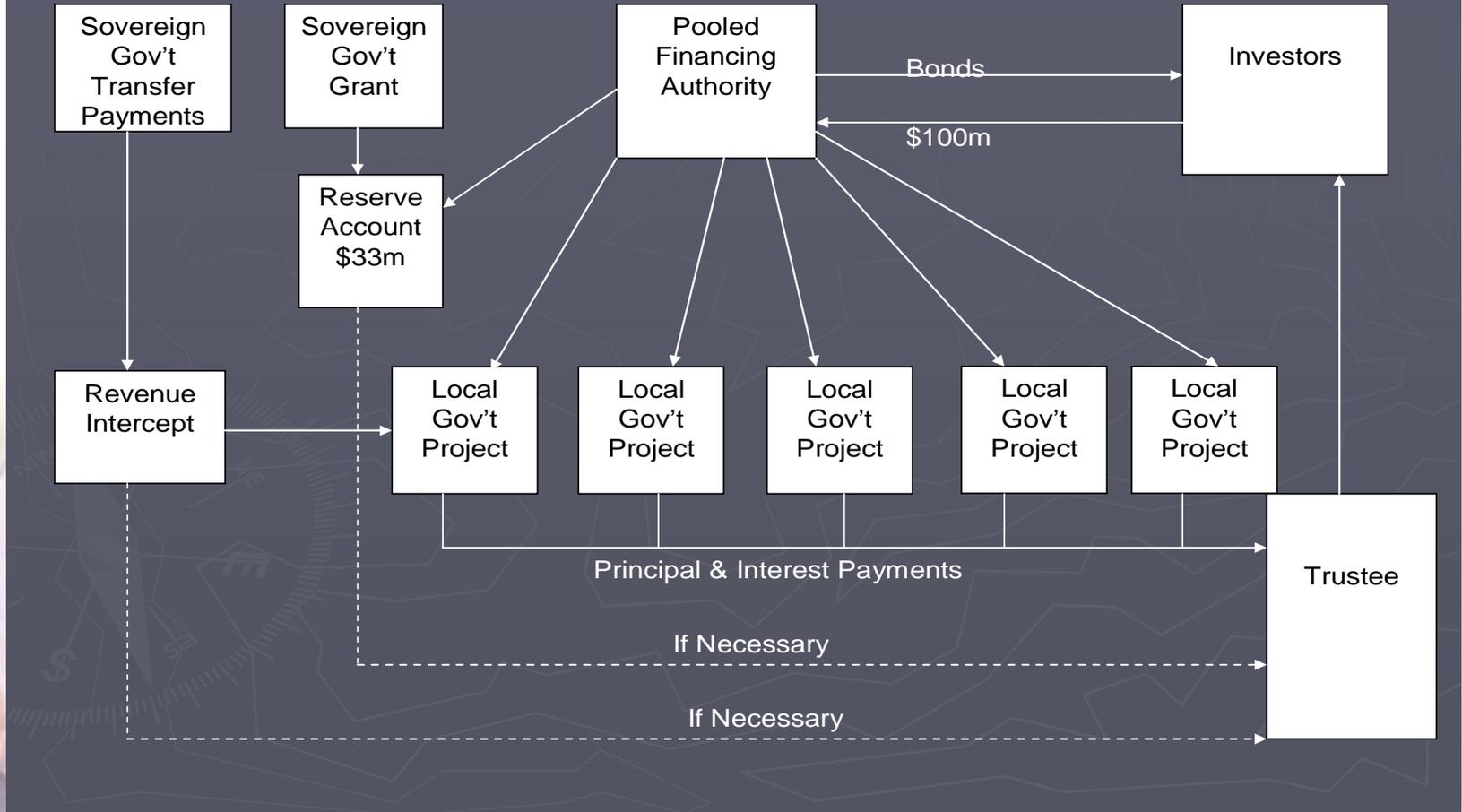
- **2001-2005: World Bank Municipal Development Loan Fund**
- **April 2005: Ukraine country team attends USAID's conference on pooled financing, Bucharest**
- **January 2006: Nine experts present MFF experience worldwide at Kyiv workshop co-sponsored by ATCI/USAID**
- **February-June 2006: Construction Minister P. Kachur creates Task Force including Ministry of Finance, Ministry of Economy (Executive Order 213)**
- **March 2006: Expert report on possible ownership structures for MFF**
- **June 2006: Cabinet of Ministers Decree 363-p approves special infrastructure finance facility as a priority measure**
- **July 2006: Minister of Construction receives presentation of expert report on options for creating and operating MFF**



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Simplified Flow of Funds for Pooled Financing

\$100 Million



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Municipal Finance Facility vs. World Bank Municipal Development Loan Fund

MFF	MDLF
Municipal Finance Facility will be a financial institution, probably a non-bank credit institution.	MDLF was not a financial institution, but a technical board for project selection.
Will not require sovereign guarantee to raise loan funds.	Required a sovereign guarantee to raise loan funds.
Loan rate could be just 2.5 points above sovereign cost of funds—BUT must have legal reforms, optimal capitalization, professional management and track record.	Interest rates at commercial loan levels: 7 to 11 points above sovereign cost of funds.
Expertise, economies of scale and credit enhancements reduce interest rates.	Banks' unfamiliarity with city finances generated high risk premium.
MFF will add to supply of high-quality investment instruments in capital market.	No impact on capital market development.



Leveraging MFF Equity

- A key objective of MFF is to “leverage” its equity funds by borrowing.
- This allows MFF to borrow in Ukraine’s capital market, and lend the borrowed funds to cities.
- Leverage can multiply MFF lendable capital, up to 6 times amount of its equity.
- Ability to leverage equity will depend on MFF loan portfolio quality and credit enhancements.



Key Recommendations for MFF

- **Mixed public-private ownership including State, development finance institutions, cities, and private investors.**
- **MFF should contract with an independent operator, such as a commercial bank, to perform key functions.**
- **MFF should be established by special legislation.**
- **To improve city creditworthiness, legal framework for municipal finance and local borrowing must be reformed.**



Creating MFF: Option “A”

A. State-owned MFF corporatizes under special law.

- Initial State investment creates MFF as State-owned company.
- State enacts legal and regulatory changes within one year.
- Equity investment is attracted from city and development finance institutions.
- State-owned company corporatizes under special MFF legislation, with mixed ownership. *State share value diminishes to 25 percent or less.*



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Next Steps ...

1. Must identify a champion to lead State support
2. State decides on MFF's basic structure
3. State commits to provide initial capital and to make legal reforms
4. Develop detailed business plan for MFF equity investors
 - Development finance institutions
 - Cities
 - Commercial banks?
5. Finalize business plan
6. MFF begins operation
7. Complete legal reforms within one year



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Conclusion

The Municipal Finance Facility concept has four key requirements:

- **State sponsorship and capital to start.**
- **Laws and regulations that support its unique mission.**
- **Lend only to creditworthy borrowers.**
- **Operate non-politically and professionally.**

If these requirements are met, the MFF can succeed. But all four factors need to be satisfied.



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In Summary:

Success in developing a domestic mortgage, mortgage, municipal, and asset – backed securities market is contingent on the State developing a liquid government debt market.

- Private pension inflows are estimated at \$150 million a month.
- Creating huge domestic institutional investment capacity
- Too few financial instruments
- Capital will be forced off - shore



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Recommendation:

Take immediate steps to form an inter - ministerial working group to address:

- Formation of a primary dealer group
- How to Empower the Debt Management Committee to manage the auction process



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ATTACHMENT 10



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Certified Leasing Professional Program **Train-the-Trainers**

Day 1: Training Skills

Agenda

9-30 – 10-00 – Registration of participants

10:00 – 10:30 - Introduction

- **About CLP Foundation USA;**
- **Goals of CLP Program in Ukraine**
- **Level I Curriculum – Certified Leasing Specialist**

10-30—12:00 – Training Skills

- **Basic Guidelines**
- **Preparation**
- **Presentation**

12:00 – 12:45 – Lunch

12:45 – 13:15 – Training Skills (Cont.)

- **Class Control**
- **Maintaining Interest**

13:15 – 13:45 – Teaching different types of content – Memorization Content

13:45 - 14:00 – Coffee Break

14:00 – 14:45 - Teaching different types of content

- **Analytical Content**
- **Practical Content**

14:45 – 15:00 - Question and Answer / Discussion

Day 2: Risk Management

Agenda

- 9:00 – 9:30 – Introduction / Main Risks for Lessors**
- 9:30 – 10:30 - Lessor Credit Strategies; Main Elements of a Credit Analysis**
- 10:30 – 10:45 - Coffee Break**
- 10:45 - 12:15 – Financial Statements**
- 12:15 – 13:00 – Lunch**
- 13:00 – 14:15 - Analysis of Financial Statements**
- 14:15 – 14:30 - Coffee Break**
- 14:30 – 15:15 - Analysis of Financial Statements(cont.)**
- 15:15 – 16:00 - Analysis of historical and operational information (non-financial info)**
- 16:00 - 16:30 - Question and Answer / Discussion**

Day 3: Sources of Financing for Lessors

Agenda

9:00 – 9:30 – Introduction / Different Types of Lessors and Funding Strategies

9:30 – 10:00 - Types of Funding Organizations

10:00 – 10:30 - Equity Funding

10:30 – 10:45 - Coffee Break

10:45 - 11:15 – Equity Funding Financial Statements

11:15 – 12:15 – Types of Debt Funding

12:15 - 13:00 - Lunch

13:00 – 14:15 - Other Types of Funding

14:15 – 14:30 - Coffee Break

14:30 – 15:30 - Trade Finance and Promissory Notes

15:30 – 16:00 - Analysis of historical and operational information (non-financial info)

16:00 - 16:30 - Question and Answer / Discussion

Day 4: Marketing and Sales for Lessors

Agenda

9:00 – 9:45 – Introduction / Different Lessor Business Strategies

9:30 – 10:30 - Marketing Plan

- **Executive Summary**
- **Situational Analysis**
- **Marketing Strategy**

10:30 – 10:45 - Coffee Break

10:45 – 11:15 – Marketing Plan – Financial Plan / Projections; Conclusion

11:15 – 12:15 – Targeted Marketing Programs

12:15 - 13:00 - Lunch

13:00 – 14:15 - Working with Vendors

14:15 – 14:30 - Coffee Break

14:30 – 15:30 - Sales Strategy and Techniques

15:30 – 16:00 - Question and Answer / Discussion

Day 5: Lease Pricing and Structuring

Agenda

9:00 – 9:30 – Present Value of Money

9:30 – 10:00 - Methods of Repayment

10:00 – 10:30 - Pricing Basics

10:30 – 10:45 - Coffee Break

10:45 – 11:45 – Present Value Examples

11:45 – 12:15 – The Basic Leasing Formula

12:15 - 13:00 - Lunch

13:00 – 14:15 - Examples using Different Payment Structures

14:15 – 14:30 - Coffee Break

14:30 – 15:00 - Operating Lease Pricing and Structuring

15:00 – 15:30 - Discounting Lease Transactions

15:30 – 16:00 - Question and Answer / Discussion

Список участников семинара по стратегическому планированию

Имя	Должность	Организация	Электронна пошта
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Кононец Алексей	Аналитик-экономист	проект IFC "Развитие лизинга в Украине"	AKononets@ifc.org

ATTACHMENT 11

Qualified Leasing Specialist

Training Course Outline

Course I – The Leasing Environment

- Module 1: Development of Leasing
 - International evolution of leasing industry
 - Evolution of Leasing in Ukraine
 - Industry Standards and ‘Code of Ethics’

- Module 2: Classification and Terminology
 - Key Leasing Concepts
 - Types of Leases in Ukraine
 - Common Types of Leases Internationally
 - Views of Leasing
 - Types of Lessors
 - Other Definitions and Terminology

- Module 3: Legal Framework in Ukraine
 - Leasing legislation
 - Relevant Commercial Law
 - Relevant Bankruptcy Law
 - Legal Definitions and Terminology
 - Major Aspects of EU and American Law
 - Cross-border and International Lease Agreements

- Module 4: Tax Treatment of Lease Transactions
 - Ukrainian Tax Law
 - Major Aspects of EU and US tax framework

- Module 5: Accounting for Lease Transactions
 - Ukrainian Accounting Standards
 - IAS 17 and GAAP 13

- Module 6: Lease vs. Buy Analysis
 - Options for acquisition/use of lessee
 - Non-Financial Decision Making Criteria
 - Financial Decision Making Criteria
 - Cash flow analysis
 - Lessee Cost and Profitability Indicators

Course II – Lease Transactions

- Module 7: Credit Process and Financial Statements
 - Lessee Financing Needs
 - Financial Statement Analysis
 - Analysis of Non-Financial Information
 - Credit Enhancements
 - Financial Indicators

- Module 8: Lease Documentation
 - Types and Flow of Lease Documents
 - Forms of Contract
 - Elements of a Lease Contract
 - Guarantee Documentation
 - Documenting Other Risks
 - Insurance
 - Related Parties
 - Monitoring Structures
 - Additional Collateral Agreements

- Module 9: Collections and Monitoring
 - Monitoring Lessee Finances and Operations
 - Equipment Monitoring
 - Signs of Delinquency
 - Typical Reasons for Delinquency
 - Progression of a Delinquency Possible
 - Collection Remedies
 - Types of Repossession

- Module 10: Lease Pricing and Structuring
 - Present Value and Time Use of Money
 - Elements of Pricing and Profitability for a Lease Transaction
 - Payment Structures
 - Leasing Math – Solving for Different Payment Structures

Course III – Lessor Strategy and Operations

- Module 11: Working with Funding Sources
 - Types of Funding Agreements
 - Equity
 - Recourse Lending (current situation)
 - Discounting and Brokering
 - Warehouse lines
 - Revolving Credit lines
 - Working with Ukrainian Banks
 - Post Import Finance (US ExIm Bank, etc.)
 - Working with IFIs
 - Working with Venture Capital and Private Equity Investors
 - Portfolio Sales
 - Asset Securitization
 - Cross-Border Leasing / Subleasing

- Module 12: Marketing and Sales
 - Defining Your Market
 - Targeted Marketing Programs
 - Working with Vendors
 - Elements of a Marketing Plan
 - Purpose of the Sales Function
 - Elements of a Successful Sales Process
 - Sales Techniques

- Module 13: Lease Company Management
 - Structure / Organization of Leasing Company
 - Key Managers and their Roles
 - Key Management Issues

CERTIFIED LEASING SPECIALISTS

	Name	Company	Position
1	Sergiy Babelo	Eurofinance	Head of Credit Department
2	Lyubov Bilyaze	Donetsk National Technical University	Associate Professor
3	Dmytro Bogodukhov	LeaseIT	Director
4	Vitaliy Bondarenko	Universal Leasing Company (Odesa)	Development Director
5	Olexandr Budanov	Leasing Agency "CALIUS"	Director
6	Yuriy Vasin	Eurofinance	Lease Project Director
7	Andriy Vyshnyak	First Lease Finance	Director
8	Iryna Glushchenko	Kharkiv Polytechnic Institute	Senior Lecturer
9	Anton Dyadyura	Eurofinance	Business Development Manager
10	Yuriy Kolyadyuk	International Finance Corporation	Leasing Advisor
11	Roman Kamyschanov	Ukrtransleasing	Deputy Head of Air Transport Department
12	Vira Kondratieva	Audit Company "International Standards"	Managing Partner
13	Olexiy Kononets	International Finance Corporation	Analyst
14	Natalya Naumenko	Audit and Consulting Company "Compass"	Director
15	Olexiy Noskov	Ukrainian Financial Leasing Company	Finance Analyst
16	Tetyana Pavlyuk	International Institute of Business	Lecturer
17	Galyna Riznyk	Audit Company "Rivne-Consulting-Audit"	Director
18	Olexandr Rudenko	AIS-Leasing	Leasing Manager
19	Nadiya Ryazanova	International Finance Corporation	Tax & Accounting Specialist
20	Mykola Soroka	UniCredit Leasing	Project Manager
21	Olena Sukhenko	Business School "KIBIT"	Lecturer
22	Dmytro Chernyak	Agricultural Marketing Project	Economist/Market Information Specialist
23	Yuliya Shevchuk	International Finance Corporation	Legal Advisor
24	Larysa Shkurka	Audit and Consulting Company "Compass"	Managing Partner
25	Alla Eismont	Audit Company "International Standards"	Chief Financial Officer/Managing Partner
26	Kostyantyn Yuryev	Diamantbank	Leasing Program Coordinator

ATTACHMENT 12



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Seminar Agenda

“Marketing & Product Development for Leasing Professionals in Agricultural Sector”

July 14th, 2006

**Ukrainian Grain Association, Press Conference Room
53/80 Saksaganskogo Str., Room 601, 6 floor**

July 14, 2006 Friday	10:00 am	Start of training. Introduction - Richard Caproni, Robert Lever.
	10:15 am	Overview of the leasing business – Robert Lever.
	11:15 am	Marketing of leasing – development of a marketing strategy and promotion of leasing, finding lessees – Robert Lever.
	12:15 am	Coffee-break
	12:30 am	Getting the client interested in leasing – comparison of leasing and buying, discussion of advantages and disadvantages of leasing – Robert Lever.
	1:30 pm	Lunch break
	2:30 pm	Development of new leasing products – expansion of existing product mix, work in new markets and with new types of equipment – Robert Lever.
	3:30 pm	Coffee-break
	3:45 pm	Pricing of leasing deals, residual value and risk mitigation techniques – Robert Lever.
	4:45 pm	Discussion. Question and answer section – Robert Lever.
	5:00 pm	Conclusion – Robert Lever, Richard Caproni.

ATTACHMENT 13



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AVP

Agribusiness Volunteer Program
Ukraine · Belarus · Moldova

План семінару

“СТРАТЕГІЧНЕ ПЛАНУВАННЯ ДЛЯ ПРОФЕСІОНАЛІВ В СФЕРІ ЛІЗИНГУ”

4 вересня, 2006

Понеділок, 4 вересня

10:00 – 17:00

Конференц-зала, вул. Еспланадна, 28, оф. 6 (карта додається)

- 10:00 Початок тренінгу. Вступне слово – *Річард Капроні, Стів Річардс.*
- 10:15 ЧАСТИНА I.
Стратегічне планування – *Стів Річардс.*
- визначення стратегічних цілей компанії
 - цілі та завдання лізингової компанії.
 - послідовність дій при здійсненні стратегічного планування.
 - аналіз внутрішнього та зовнішнього середовища компанії.
- 11:30 SWOT аналіз як основний інструмент стратегічного планування – *Стів Річардс.*
- 12:15 Перерва на каву.
- 12:30 Відео на тему ролі лізингового брокера в лізингових операціях (від Національної асоціації лізингових брокерів США).
- 13:00 Обід.
- 14:00 ЧАСТИНА II.
Методики маркетингу лізингових послуг, що використовуються в США – *ефективний електронний маркетинг* – *Стів Річардс.*
- 14:30 Методики маркетингу лізингових послуг, що використовуються в США - *ефективний телефонний маркетинг* – *Стів Річардс.*
- 15:30 Перерва на каву.
- 15:45 Презентація результатів досліджень американського журналу сільськогосподарського обладнання Fastline Publications - *Стів Річардс.*
- 16:00 Обговорення. Сесія запитань та відповідей – *Стів Річардс.*
- 16:45 Заключне слово – *Стів Річардс, Річард Капроні.*

List of Invitees of the Strategic Planning Seminar

Имя	Должность	Организация	Электронна пошта
Nadezhda Ryazanova	Tax and Accounting Specialist	Ukraine Leasing Development Project, IFC	NRyazanova@ifc.org
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Irina Danilina	Credit Manager Assistant	Scania Credit AB (Sweden)	Irina.Danilina@scania-ua.com
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Vladimir Artemenko	CEO	Universal Leasing Company, Odesa	vladimirartem@mail.ru
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Nikolay Dorozhenko	Affiliated Branch Director	Garant Leasing	garant_leasing@ukr.net; dnick2004@mail.ru
Alexey Kononets	Analyst	Ukraine Leasing Development Project, IFC	AKononets@ifc.org

ATTACHMENT 14

Draft Rules for Assigning Ratings (under the national scale) By Authorized Rating Agencies

Summary

1. The Rules apply to the rating agencies that have the status of authorized rating agencies.
2. Rating assessments must be independent
3. Assigned ratings must be timely updated
4. Ratings should be assigned based on the respective agreements (which must specify the procedure for publishing the assigned ratings and their monitoring; procedure for provision to the rating agency of the information regarding material changes related to the object of rating, etc.). ***(Based on legal analysis this provision challenged. Grounds for challenging – the SSMSC is not authorized to establish the requirements to the agreements)***
5. The Rules specify the term for keeping the records of concluded agreements, as well as reporting requirements for rating agencies.
6. The Rules introduce the notion of Methodology for assigning ratings.
7. The methodology for assigning ratings must include two stages: for assigning ratings and updating ratings.
8. The stage for assigning ratings includes the following:
 - Conclusion of agreement on assigning a rating;
 - Determining of persons responsible for assigning ratings;
 - Analysis of information provided by the object of rating;
 - Preparation of rating report;
 - Adoption of decision on assigning a rating;
 - Provision of rating report to the object of rating;
 - Publication of rating.
9. The stage for updating ratings includes:
 - The same steps as above. Based on updating results ratings can be confirmed, changed, suspended, or cancelled.
10. The object of rating can appeal against the assigned rating within 10 days after the rating has been assigned. The appeal must be substantiated. ***(The procedure for filing the appeal is unclear)***
11. Regular rating updates must be performed at least once every 6 months. Extraordinary rating updates can be performed if required or upon the receipt of information, which makes an extraordinary update expedient. The rules specify the types of such information.
12. The Rules specify the changes, which must be notified to the rating agency by the object of rating and which serve as a valid reason for the extraordinary update of rating.
13. All information related to the course and results of rating assessment shall be the property of the authorized rating agency ***(this wording is unacceptable)***.