



USAID | **UKRAINE**
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE

UKRAINE & MOLDOVA



TWENTIETH QUARTERLY REPORT – UKRAINE

July 1 –September 30, 2009

Contract Number: I21-C-00-04-00713

October 20, 2009

This report was produced for review by the United Agency for International Development. It was prepared by the USAID Access to Credit Initiative implemented by The Pragma Corporation.

**ACCESS TO CREDIT INITIATIVE
UKRAINE & MOLDOVA**

TWENTIETH QUARTERLY REPORT - UKRAINE

July 1, 2009 – September 30, 2009

Contract Number: 121-C-00-04-00713

CTO USAID/Ukraine: Natalia Berezna
Project Manager: Mohammad Fatoorechie
Chief of Party: Richard W. Dvorin

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

UKRAINE (Twentieth Quarterly)	3
A. PROJECT OVERVIEW	3
I. PROJECT DESCRIPTION – Executive Summary Ukraine	3
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Executive Summary Ukraine	4
III. PROJECT STAFFING – Executive Summary Ukraine	6
IV. ADMINISTRATIVE ISSUES – Executive Summary Ukraine	6
PROJECT COMPONENTS	8
B. MORTGAGE	8
I. COMPONENT DESCRIPTION – Mortgage Ukraine	8
II. SIGNIFICANT EVENTS AND ACTIVITIES – Mortgage Ukraine	8
III. EXECUTIVE SUMMARY – Mortgage Ukraine	9
IV. ADMINISTRATIVE ISSUES – Mortgage Ukraine	11
V. DESCRIPTION AND STATUS OF TASKS – Mortgage Ukraine	11
C. FIXED INCOME	15
I. COMPONENT DESCRIPTION – Fixed Income Ukraine	15
II. SIGNIFICANT EVENTS – Fixed Income Ukraine	15
III. EXECUTIVE SUMMARY – Fixed Income Ukraine	16
IV. ADMINISTRATIVE ISSUES – Fixed Income Ukraine	19
V. DESCRIPTION AND STATUS OF TASKS – Fixed Income Ukraine	19
D. MUNICIPAL FINANCE	21
I. EXECUTIVE SUMMARY – Municipal Finance Ukraine	21
II. SIGNIFICANT EVENTS – Municipal Finance Ukraine	21
III. EXECUTIVE SUMMARY – Municipal Finance Ukraine	21
IV. ADMINISTRATIVE ISSUES – Municipal Finance Ukraine	22
V. DESCRIPTION AND STATUS OF TASKS – Municipal Finance Ukraine	23
E. LEASING	25
I. COMPONENT DESCRIPTION – Leasing Ukraine	25
II. SIGNIFICANT EVENTS – Leasing Ukraine	25
III. EXECUTIVE SUMMARY – Leasing Ukraine	25
IV. ADMINISTRATIVE ISSUES – Leasing Ukraine	26
V. DESCRIPTION AND STATUS OF TASKS – Leasing Ukraine	27
F. CREDIT BUREAU/CREDIT RATING	30
I. COMPONENT DESCRIPTION – Credit Bureau Ukraine	30
II. SIGNIFICANT EVENTS – Credit Bureau Ukraine	30
III. COMPONENT DESCRIPTION – Credit Ratings Ukraine	30
IV. SIGNIFICANT EVENTS – Credit Ratings Ukraine	30
V. EXECUTIVE SUMMARY – Credit Ratings Ukraine	31
VI. DESCRIPTION AND STATUS OF TASKS – CB/CR Ukraine	31
G. GENDER	33
I. COMPONENT DESCRIPTION – Gender Ukraine	33
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Gender Ukraine	33
III. EXECUTIVE SUMMARY – Gender Ukraine	33
IV. ADMINISTRATIVE ISSUES – Gender Ukraine	33
V. DESCRIPTION AND STATUS OF TASKS – Gender Ukraine	34

Attachments – Ukraine

- ATTACHMENT 1:** The Access to Credit Initiative Quarterly Review presented September 10, 2009 to USAID Ukraine Mission
- ATTACHMENT 2:** ATCI Success Stories Ukraine & Moldova, The Pragma Corporation, August 2009
- ATTACHMENT 3:** IRPF Trip Report, Norman Flynn, President & CEO IRPF, September 16-24, 2009
- ATTACHMENT 4:** CabMin Resolution 865 Municipal Balances
- ATTACHMENT 5:** Press-release of the Leasing Manual Presentation (July 8, 2009)
- ATTACHMENT 6:** List of Universities Obtaining the Leasing Manual
- ATTACHMENT 7:** Leasing Market Dynamics as of the 2nd Quarter of 2009
- ATTACHMENT 8:** Schedule of domestic government bond placements in August-December 2009
- ATTACHMENT 9:** Weighted average Auction and Kiev Prime Rates September 2009
- ATTACHMENT 10:** Managing Mortgage Portfolio Risk-Steve Moody
- ATTACHMENT 11:** Housing Crisis-Steve Moody

UKRAINE (Twentieth Quarterly)

A. PROJECT OVERVIEW

I. PROJECT DESCRIPTION – EXECUTIVE SUMMARY UKRAINE

The original project end date September 30, 2009 has been extended to October 31, 2009 on a USAID “no cost extension” basis. This has permitted continuation and extension of all project activities, in particular, continued technical assistance to the domestic government bond market.

On Sept 10, 2009, Pragma Project Director Mohammad Fatoorechie and ATCI COP Rick Dvorin met the USAID Mission/Ukraine Team and made the Quarterly Review PowerPoint presentation (**Attachment I**).

Initially, ATCI was tasked with developing the primary and secondary mortgage market with its associated infrastructure; increasing capacity for the leasing industry including the development of certified leasing professionals; the developing the ability for municipalities and utilities to use debt instruments to modernize vital infrastructure, and establishing a credit bureau to facilitate the growth of credit for mortgages and other retail lending. While the credit bureau/credit rating component was subordinated to the mortgage component, it is treated as a stand alone for purposes of implementation. The preliminary work plan was presented and accepted by USAID in November 2004. In October 2006, the ATCI contract was amended to include development of fixed-income operations in Ukraine. Additionally, ATCI Activities were expanded to include Moldova. (NOTE: ATCI Moldova completion date was February 28, 2009)

In the Twentieth Quarter, two highlights in the Ukraine financial crisis environment effected ATCI technical assistance identified as the contraction in Ukraine’s mortgage market and the funding of the state budget fiscal deficit. The mortgage market shrinkage reflects borrower defaults, prepayments, loan modifications and—most important—virtually no new mortgage lending. (It is estimated that some 20% of mortgages in Kiev are delinquent, and some 30% of borrowers during 2007 and 2008 are now in some stage of foreclosure.)

Consequently, one of ATCI’s key counterparts in the mortgage market, SMI, by order of the CabMin was saddled with buying and completing construction of more than twenty-eight unfinished apartment houses throughout the country. SMI is clearly overwhelmed with its new role and has relegated mortgages and ATCI’s technical assistance to a far back burner.

However, despite the change in the ATCI technical assistance operational mandate at SMI, **Steve Moody**, former Country Director for ATCI in Moldova and senior mortgage expert continued Risk Management activities for the SMI and UNIA and their members as well as for the SMI Regulator, the FSR.

On the front burner, the further development of the domestic government bond market to fund the state budget has required increased ATCI activity for technical assistance accomplished with the establishment of the primary dealer system. As at September 30, there are nine banks qualified and accepted as Primary Dealers (PDs). The process is underway to have agreements signed with all nine between the MOF and each PD. The MOF, at the suggestion of ATCI, convened a meeting of the relevant players in the government securities and repo markets to discuss items of significance related to quotes, trades, trading platforms, obligations of PDs, and benefits acting as PDs.

The technical assistance goal of the Fixed Income component includes the sustainability of activities relating to “Assisting GOU and NBU in constructing a long-term government yield curve in Ukraine”. There are several factors and activities, in addition to establishing a network of Primary Dealers, needed to fulfill this goal, including cooperation with and from the GOU and NBU and such basics as (1) issuing domestic government bonds at market; (2) developing a Repo/reverse repo market are all necessary.

The ATCI Fixed Income activity team includes the key members **Paul Roberti**, international Government Bond expert, and former US Treasury Advisor in Republic of Georgia, Armenia and Albania (who will remain with the project for the duration), **Vladimir Vysotskyi**, ATCI Senior Advisor Fixed Income, the former Chief, Public Debt Department, MinFin, and **Alina Chernomaz**, data analyst.

ATCI, throughout the twentieth quarter, continued its high level of intervention and technical assistance for the other component areas: Leasing, Municipal Finance and Credit Bureaus. The quarter’s significant component activities are highlighted in this report.

The project update for this quarterly report will correspond to the activities set forth in the ATCI Work Plan.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – EXECUTIVE SUMMARY UKRAINE

- ATCI ACTIVITIES IN THE DEVELOPMENT OF THE DOMESTIC **GOVERNMENT BOND MARKET** DOMINATED THIS QUARTERS’ ACTIVITIES.
- THE MOF ORDER (JULY 13) APPROVED THE PROCEDURE FOR SELECTION AND FUNCTIONING OF PRIMARY DEALERS. THIS ORDER WAS DRAFTED WITH ATCI ASSISTANCE, EVENTUALLY PROVIDING FOR THE SELECTION OF FIVE PRIMARY DEALERS (AUGUST 20), AND ANOTHER TENDER (SEPTEMBER 10) RESULTED IN AN ADDITIONAL FOUR BEING SELECTED OR A TOTAL OF NINE PRIMARY DEALERS.
- IN AUGUST-SEPTEMBER, ATCI HAD TWO MEETINGS WITH NBU ADDRESSING THE ISSUES OF SECONDARY MARKET PRICE DISCOVERY, REPO TRANSACTIONS IN GOVERNMENT SECURITIES AND NBU SUPPORT OF INTRODUCTION OF PRIMARY DEALER SYSTEM. THE FIRST REPO TRANSACTION IN GOVERNMENT SECURITIES WAS EFFECTED (SEPTEMBER 7) THROUGH “PFTS NEXT TRADING SYSTEM” ON SEPTEMBER 23. MOF STARTED SELLING RETAIL BONDS WHICH WAS RECOMMENDED BY ATCI TOGETHER WITH AKK SPECIALISTS IN LATE SEPTEMBER.
- ATCI INITIATED AND MOF HOSTED (SEPTEMBER 30) REPRESENTATIVES FROM THE NBU, NINE PRIMARY DEALERS, THE UKRAINIAN INTERBANK CURRENCY EXCHANGE AND PFTS TO (SEE **ATTACHMENTS 8 AND 9**) TO DISCUSS THE PD SYSTEM. PLEASE REFER TO **GOVERNMENT BONDS FIXED INCOME COMPONENT** FOR COMPLETE AND ADDITIONAL DETAILS.
- ATCI ACTIVITIES IN THE DEVELOPMENT OF THE **MUNICIPAL BOND MARKET** RESULTED IN CHANGES AND AMENDMENTS IN LEGISLATIVE ACTIVITY. THE RESULT BEING THAT THE CABMIN ADOPTED RESOLUTION 865 AMENDING RESOLUTION 207 ON THE PROCEDURE OF LOCAL BORROWING AND RESOLUTION 922 ALLOWING LOCAL GOVERNMENTS TO DEPOSIT FREE BALANCES IN RECAPITALIZED BANKS (**ATTACHMENT 4**).

- ATCI CONTINUES CONSULTING WITH DEPUTY MAYOR AND FINANCE DIRECTOR OF THE CITY OF ENERODAR ON A BOND ISSUE AND ERDB BORROWING. PLEASE REFER TO **MUNICIPAL BOND** COMPONENT FOR ADDITIONAL DETAILS.
- ATCI ACTIVITIES IN THE DEVELOPMENT OF THE **MORTGAGE MARKET** INVOLVED TECHNICAL DISCUSSIONS WITH SSMSC TO AMEND THE LAW “ON MORTGAGE SECURITIES” AND PARTICIPATION IN ROUNDTABLE ON BANK RECAPITALIZATION.
- SHORT-TERM ADVISOR STEVE MOODY MADE PRESENTATIONS ON THE GLOBAL FINANCIAL CRISIS, UKRAINE’S MORTGAGE CRISIS AND RISK MANAGEMENT OF MORTGAGE PORTFOLIOS AT BOTH UNIA AND FSR THIS QUARTER (**ATTACHMENTS 10 & 11**).
- IRPF (INTERNATIONAL REAL PROPERTY FOUNDATION) HEADED BY NORM FLYNN CONTINUED WORKING WITH REALTOR ASSOCIATIONS ON UNIFIED DATA BASE AND MULTIPLE LISTING SERVICE (**ATTACHMENT 3**). PLEASE REFER TO **MORTGAGE FINANCE COMPONENT** FOR ADDITIONAL DETAILS.
- ATCI ACTIVITIES IN THE DEVELOPMENT OF THE **LEASING MARKET** WAS HALLMARKED BY THE PRESENTATION OF THE ATCI-DEVELOPED LEASING MANUAL (JULY 8) IN THE UKRANIAN LANGUAGE. EVENT ATTENDED BY OFFICIALS OF THE STATE COMMISSION FOR REGULATION OF FINANCIAL SERVICES MARKETS, USAID, REPRESENTATIVES OF LEASING COMPANIES AND HIGHER EDUCATIONAL INSTITUTIONS (**ATTACHMENT 5**).
- IN JULY-AUGUST, ATCI DISTRIBUTED NEARLY 500 COPIES OF THE LEASING MANUAL AMONG 53 UNIVERSITIES THROUGHOUT UKRAINE (SEE **ATTACHMENT 6**).
- THE LICENSE AGREEMENT WAS CONCLUDED BETWEEN THE CLP FOUNDATION (USA) AND THE LOCAL NGO PROVIDING THE LATTER WITH EXCLUSIVE LICENSE TO ADMINISTER CLS PROGRAM IN UKRAINE IN SEPTEMBER.
- ATCI FINISHED REVIEWING THE LEASING INSTRUCTION MANUAL OF KYIV NATIONAL UNIVERSITY FOR TRADE AND ECONOMICS AND PROVIDED IT’S COMMENTS ON HOW TO IMPROVE THE INSTRUCTION MANUAL CONTENT. PLEASE REFER TO **LEASING COMPONENT** FOR ADDITIONAL DETAILS (**ATTACHMENT 7**).
- ATCI ACTIVITIES IN **CREDIT BUREAUS AND CREDIT RATINGS** CONTINUED WITH WORK ON THE ISSUES REGARDING THE REGULATION OF CREDIT BUREAUS AND COLLECTION AGENCIES. ATCI REQUESTED FSR SUPPORT IN ELIMINATING MANDATORY CREDIT RATING REQUIREMENTS AND EXPANDING THE NUMBER OF AUTHORIZED DOMESTIC CREDIT RATING AGENCIES TO FACILITATE EFFICIENT BOND ISSUANCE. ATCI ENCOURAGED FSR TO CONTINUE PROHIBITIONS AGAINST COLLECTING AGENCIES RECEIVING OR BUYING CREDIT HISTORY REPORTS. ATCI SUBMITTED TO FSR RECOMMENDATIONS ON BEST INTERNATIONAL EXPERIENCE IN ORDER FOR FSR TO DRAFT REGULATIONS AND SUPERVISE THE CREDIT BUREAU ACTIVITIES. REFER TO **CREDIT BUREAU/CREDIT RATING COMPONENT** FOR ADDITIONAL DETAILS.

- ATCI CONTINUES ITS COMMITMENT TO **GENDER** ISSUES AND MAINTAINS A STAFF THAT INCLUDES WOMAN AND MEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW. ALL PROJECT TRAINING STRIVED FOR AND RESULTED IN AN EVEN BALANCE OF MEN AND WOMEN. PLEASE REFER TO **GENDER COMPONENT** FOR ADDITIONAL DETAILS.

Special Mention:

- ON SEPTEMBER 10, 2009 THE ATCI TEAM MANAGEMENT, PRAGMA PROJECT MANAGER MOHAMMAD FATOORECHIE AND COP RICK DVORIN, PRESENTED THE QUARTERLY REVIEW POWERPOINT PRESENTATION TO THE USAID MISSION/ UKRAINE (SEE **ATTACHMENT 1**).
- DURING THE PERIOD SEPTEMBER, 16-24, 2009 ATCI CONTINUED ITS SUPPORT OF THE IRPF (INTERNATIONAL REAL PROPERTY FOUNDATION) PROJECT AND ITS COLLABORATION WITH THE UKRAINIAN REALTORS ASSOCIATION. IN PARTICULAR, IRPF HAS ASKED FOR CONTINUED ON-GOING ASSISTANCE FOR THE DATA COLLECTION PROJECT IS CONDUCTED AT USC, AND THE MLS AND IVSC PROJECTS BEGUN WITH IRPF ASSISTANCE. THE ATCI COP INTRODUCED FLYNN TO THE NEW USAID EGAT TEAM (SEE **ATTACHMENT 3**).

III. PROJECT STAFFING – EXECUTIVE SUMMARY UKRAINE

The following international personnel were engaged in project activities this quarter:

- Rick Dvorin, Chief of Party
- Dennis Grubb, DCOP
- Paul Roberti, Government Bond Expert
- Steve Moody, Mortgage Risk Management Expert
- Norman Flynn, IRPF Consultant

IV. ADMINISTRATIVE ISSUES – EXECUTIVE SUMMARY UKRAINE

Dennis Grubb, Steve Moody and Paul Roberti, short-term expatriate expert consultants, received USAID/Ukraine waiver to extend services beyond the original September 30, 2009 contract end-date. USAID/Ukraine issued a no-cost extension to ATCI through October 31, 2009.

In agreement with USAID/Ukraine OEG and COTR, this 20th Quarterly Report will be the last quarterly report. ATCI will submit a Final Report to USAID/Ukraine by October 30, 2009.

The ATCI Project Disbursement and Disposition Plans had been approved by USAID; ATCI will carry out disbursement and disposition according to the plans.

LIST OF ATTACHMENTS – PROJECT OVERVIEW

- ATTACHMENT 1:** The Access to Credit Initiative Quarterly Review presented September 10, 2009 to USAID Ukraine Mission
- ATTACHMENT 2:** ATCI Success Stories Ukraine & Moldova, The Pragma Corporation, August 2009
- ATTACHMENT 3:** IRPF Trip Report, Norman Flynn, President & CEO IRPF, September 16-24, 2009
- ATTACHMENT 4:** CabMin Resolution 865 Municipal Balances
- ATTACHMENT 5:** Press-release of the Leasing Manual Presentation (July 8, 2009)
- ATTACHMENT 6:** List of Universities Obtaining the Leasing Manual
- ATTACHMENT 7:** Leasing Market Dynamics as of the 2nd Quarter of 2009
- ATTACHMENT 8:** Schedule of domestic government bond placements in August-December 2009
- ATTACHMENT 9:** Weighted average Auction and Kiev Prime Rates September 2009
- ATTACHMENT 10:** Managing Mortgage Portfolio Risk-Steve Moody
- ATTACHMENT 11:** Housing Crisis-Steve Moody

PROJECT COMPONENTS

B. MORTGAGE

I. COMPONENT DESCRIPTION – MORTGAGE UKRAINE

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-September 30, 2009.

The primary purpose of the ATCI mortgage component 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 AND ACTIVITIES – MORTGAGE UKRAINE

- ATCI MEETS WITH SSMSC TO DISCUSS AMENDMENTS TO THE LAW “ON MORTGAGE SECURITIES”
- ATCI PARTICIPATED IN ROUNDTABLE ON BANK RECAPITALIZATION
- SHORT-TERM ADVISOR STEVE MOODY MAKES PRESENTATIONS ON THE GLOBAL FINANCIAL CRISIS, UKRAINE’S MORTGAGE CRISIS AND RISK MANAGEMENT OF MORTGAGE PORTFOLIOS AT BOTH UNIA AND FSR
- IRPF WORKS WITH REALTOR ASSOCIATIONS ON UNIFIED DATA BASE
- OUTSTANDING MORTGAGE BALANCES CONTINUE TO SHRINK IN Q2
- CABMIN SADDLES SMI WITH ROLE OF REAL ESTATE DEVELOPER; SMI CANCELS FURTHER BOND ISSUANCE AND ORIGINALLY TARGETED ACTIVITIES

III. EXECUTIVE SUMMARY – MORTGAGE UKRAINE

Primary Mortgage Market

OUTSTANDING MORTGAGE BALANCES SHRINK IN Q2

As a result of the ongoing financial crisis, Ukraine's mortgage market continues to contract. According to data collected by UNIA, unpaid mortgage balances at the end of the second quarter totaled UAH 100.4 billion (USD 12.00 billion), down about 7% from outstanding mortgage balances at the end of 2008. The shrinkage reflects borrower defaults, prepayments, loan modifications and—most important—virtually no new mortgage lending.

Also visible in the data is a slow but relentless shift out of USD-denominated loans into UAH-denominated loans. Loan modifications are thought to be responsible for reducing USD-denominated loans by about 1% in the second quarter. Even so, outstanding mortgages denominated in USD accounted for 78.2% of the country's entire mortgage portfolio.

By various sources, it is estimated that some 20% of mortgages in Kiev are delinquent, and some 30% of borrowers during 2007 and 2008 are now in some stage of foreclosure.

Secondary Mortgage Market

CABMIN SADDLES SMI WITH ROLE OF REAL ESTATE DEVELOPER; SMI CANCELS FURTHER BOND ISSUANCE AND ORIGINALLY TARGETED ACTIVITIES

Potential for productive interaction between SMI and ATCI was abruptly curbed in July, when President Yushenko lost a political skirmish with Prime Minister Timoshenko, and SMI was saddled with buying and completing construction of more than twenty-eight unfinished apartment houses throughout the country with an estimated value of UAH 1.5 billion. By comparison, SMI mortgage portfolio is only on the order of UAH 2.0 billion. SMI is clearly overwhelmed with its new role and has relegated mortgages to a far back burner.

Thus, there was only one meeting between ATCI and SMI during the quarter. Plans were made for ATCI to complete a thorough review of SMI's mortgage portfolio, but that review never materialized. SMI also did not respond to ATCI's efforts to present mortgage portfolio risk management seminars.

Late in the quarter under review, SMI cancelled planned issuance of the remaining series of its UAH 200 million mortgage covered bond. Series A and G remain in circulation. The reasons for the cancellation were not announced, but it is suspected that SMI's mortgage pool has suffered significant deterioration and no longer supports issuance of a full UAH 200 million. Subsequently, however, Cabmin increased SMI's charter capital to UAH 1.2 billion from UAH 1.0 billion.

ATCI MEETS WITH SSMSC TO DISCUSS AMENDMENTS TO THE LAW “ON MORTGAGE SECURITIES”

In another installment in the long-running saga of the amendments to the law “On Mortgage Securities,” ATCI attorneys met with SSMSC attorneys to discuss three amendments on which SSMSC had formerly agreed with ATCI but more recently changed their view.

The first issue has to do with the location where auditor performed the agreed-upon procedure. SSMSC now prefers having auditors perform the procedure in their own offices rather than on the premises of

the issuer. ATCI pointed out that, while that might be possible with small issues like that of Ukrzazbank, the agreed-upon procedure for larger bond issues could potentially involve thousands of mortgages all of which the auditors must have access in the sample selection phase of the procedure. It would be impractical and expensive for the bank to truck thousands of contracts across town to their auditor's offices which, in any event, might not be large enough to warehouse all the contracts. Worse still, warehousing mortgage contracts at any location other than the issuer's deprives the issuer of access to his own mortgage portfolio.

The second issue concerned the bond manager performing the agreed upon procedure instead of the auditors. SSMSC argued that the bond manager should be able to perform the agreed-upon procedure himself. ATCI pointed out that the bond manager is a bank, not an auditor, and is therefore not licensed to perform audit procedures.

The last issue is that of licensing banks to act as bond managers. ATCI is simply against it because banks are already licensed entities capable of carrying out trust operations. The bond manager is nothing other than a trustee.

ATCI PARTICIPATES IN ROUNDTABLE ON BANK RECAPITALIZATION

In August, ATCI representatives attended a roundtable at which three banks—Ukrzazbank, Kiev Bank and Rodovidbank—discussed the process of being bailed out by the government, which now owns a majority stake in each. There's really not much to report from this session. The discussion was not sufficiently detailed, and nothing new about the bail-outs was revealed. And, most important, there was no discussion by the government of its exit strategy or timing.

SHORT-TERM ADVISOR STEVE MOODY MAKES PRESENTATIONS ON THE GLOBAL FINANCIAL CRISIS, UKRAINE'S MORTGAGE CRISIS AND RISK MANAGEMENT OF MORTGAGE PORTFOLIOS AT BOTH UNIA AND FSR

During the quarter under review, Steve Moody made four presentations for UNIA members and the staff of FSR.

For UNIA members, the presentations were "Financial Crisis: Fannie Mae and Freddie Mac" and "Risk Management of Mortgage Portfolios." The first presentation outlined the causes of the financial crisis globally and discussed its impact on the US government sponsored enterprises. The second detailed an approach to managing the market risks of mortgage portfolio using weighted average mortgage indicators (interest rate, term to maturity, LTV, average monthly prepayment and Macaulay duration) derived at the portfolio level. "Risk Management of Mortgage Portfolios" was also presented to FSR.

A separate presentation for FSR, "Housing Crisis" included a detailed analysis of the mortgage and housing crisis in Ukraine.

The presentations are attached (**Attachments 9, 10 and 11**).

Associated Market Infrastructure

Appraisal and Real Estate Associations

Norm Flynn of the International Real Property Foundation (IRPF) returned to Ukraine during the period September 16-24. He reports that, with minor modifications in the Ukrainian Realtors Associations Regulations and Statutes, they could easily have 3,000-4,000 certified brokers at the moment. That would be a substantially high number of those that are currently active in the market, although at one point there were over 100,000 people in the business, and that number is now estimated at somewhere between 15,000-20,000.

The certification of appraisers is also fully in place and the mechanism to both host the certification board and an agreement by the end users to participate is reality. What remains to be done is to have enough activity in the market to, in fact, implement the IVSC Standards. In addition, there is a need for us to stimulate International Valuation Standards Council (IVSC) to be more responsive to those countries that are attempting to meet these standards. They review the documents, outline their approaches and ask for approval which is not forthcoming. Communication from IVSC has been abysmally low. Compounding questions that surround IVSC is the fact that Royal Institution of Chartered Surveyors (RICS) now is taking a substantial role in both Russia and attempting to do so in Ukraine. They are not mutually exclusive. One can meet International Valuers Standards and still be a member of (RICS.) Much like in the United States, you can hold a national recognized license and still be a Member Appraisal Institute (MAI). IRPF has encouraged Koval and the Society of Appraisers of Ukraine (UTO) to embrace (RICS) and work together to increase all standards in the marketplace.

As to the two projects remaining, the data collection project is in place. The Business Plan has been written, a round of assessment has been done, a University has been recruited to help sanitize the data and 60 brokers have agreed to supply actual hard information about what the pricing is in the market. Efforts still have to be made to contact banks to get their basic information and to help underwrite the cost of this effort.

From the very beginning two years ago, few people were willing to talk about the Multiple Listing Service (MLS.) Now it is a common topic in most of the corridors of the Association. There are 8 organizations that pretend to provide a MLS but are really data gathering and aggregation rather than the real requirements of an MLS which is an agreement to cooperate with other brokers and to share commissions.

Mr. Flynn’s full report is attached (**Attachment 3**).

IV. ADMINISTRATIVE ISSUES – MORTGAGE UKRAINE

Steve Moody, former Country Director Moldova for the ATCI arrived in Kiev, July 6, 2009 and will provide continuing Short Term Technical assistance to SMI management and to UNIA through most of the duration of the Project.

V. DESCRIPTION AND STATUS OF TASKS – MORTGAGE UKRAINE

A. Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. IUE review of CML training materials and methodology for applicability to Ukraine	• COMPLETED IN EARLIER QUARTER
2. Select candidates from banks and financial institutions engaged in mortgage lending	• COMPLETED IN EARLIER QUARTER
3. Develop and administer formal training program to financial institutions engaged in mortgage lending	• COMPLETED IN EARLIER QUARTER
4. Deliver a series of five CML courses (two regional)	• COMPLETED IN EARLIER QUARTER
5. Deliver one CML Train the Trainer course	• COMPLETED IN EARLIER QUARTER

6. Assessment of rural lending; titling, title registration, appraisal, and of basic element of profitable agricultural production units	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
7. Deliver one SMI course.	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
8. Deliver three regional CML courses for SSMSC	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
9. Select training provider	<ul style="list-style-type: none"> • COMPLETED
10. Monitor training provider	<ul style="list-style-type: none"> • COMPLETED
11. Conduct CML courses through training provider	<ul style="list-style-type: none"> • CML COURSES WILL BE CONDUCTED ON FEE BASIS THROUGH TRAINING PROVIDER • NEXT COURSE RE-SCHEDULED FOR NEXT QUARTER, OFFERED FOR 2-3 DAYS RATHER THAN 5, TO MEET NEEDS OF THE MARKET
12. Assist UNIA to become sustainable	<ul style="list-style-type: none"> • ATCI ASSISTING UNIA TO BECOME SUSTAINABLE THROUGH PROJECT COMPLETION AND BEYOND • ADVISOR STEVE MOODY MAKES PRESENTATIONS ON GLOBAL FINANCIAL CRIS AND RISK MANAGEMENT TO UNIA AND FSR
13. Assist SMI to become an operational liquidity facility	<ul style="list-style-type: none"> • SMI ISSUED BOND ON JUNE 19, 2009; SERIES A AND G WORTH UAH 50 MILLION AND CANCELLED (BY ORDER OF CABMIN)THE REMAINING 200 MILLION TO FINANCE CONSTRUCTION OF NEARLY COMPLETED RESIDENCES...POSTPONED • ATCI PLANS TO MAKE A THROUGH REVIEW OF SMI PORTFOLIO (NOT SCHEDULED)

B. Assistance to Banks

1. Standardize rules and procedures for retail mortgage lending in Ukraine	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
2. Select candidate banks and financial institutions for on-site assistance	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
3. Provide on-site technical assistance	<ul style="list-style-type: none"> • ATCI PARTICIPATES IN ROUNDTABLE ON BANK RECAPITALIZATION

C. Home Loan Guarantee (Completed)

1. Analyze market for existing mortgage insurance practice	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
2. Sources government sponsor	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
3. Assess legal and regulatory framework	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
4. Complete feasibility study	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
5. Complete business plan	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
6. Assist in operational set-up of guarantee facility	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
a) Draft master policy	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
b) Determine actuarially sound rates and draft rate table	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
c) Complete operational forms	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
d) Complete organizational planning	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
7. Provide on-site technical assistance to facility	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
8. Promote use of private mortgage insurance	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE

D. Life Insurance Products (Completed)

1. Analyze insurance and mortgage markets for existing products/practices	<ul style="list-style-type: none"> ANALYZED MORTGAGE MARKET FOR EXISTING TERM-LIFE INSURANCE PRODUCTS/PRACTICES
2. Assess legal and regulatory framework	<ul style="list-style-type: none"> EXISTING LEGAL AND REGULATORY FRAMEWORK FOR INSURANCE PRODUCTS IS ACCEPTABLE
3. Analyze insurance products related to mortgages to determine necessity for certain Activities below, 4-9 (NOTE: based on existing products in the marketplace, Activities 4-9 below are N/A)	<ul style="list-style-type: none"> NO ACTIVITY THIS QUARTER
4. Assess existing actuarial data (mortality tables)	<ul style="list-style-type: none"> MORTALITY TABLES FOR 2006-2007 PUBLISHED
5. Select candidate insurers	<ul style="list-style-type: none"> N/A
6. Develop term sheet and rate structure	<ul style="list-style-type: none"> N/A
7. Draft product policy	<ul style="list-style-type: none"> N/A
8. Conduct road show with mortgage lending banks and financial institutions	<ul style="list-style-type: none"> N/A
9. Launch product	<ul style="list-style-type: none"> N/A

E. Appraisers/Brokers Associations

1. Needs assessment of UAR and appraisal organizations	<ul style="list-style-type: none"> COMPLETED IN EARLIER QUARTER
2. Facilitate development and use of unified methodology for certification of real estate practitioners between UAREP and Union of Real Estate Companies (UARC)	<ul style="list-style-type: none"> NORM FLYNN, IRPF, MET WITH REAL ESTATE ASSOCIATIONS TO FURTHER CEMENT TIES FOR MERGER SEPTEMBER 16-19. IRPF, ATCI, AND UKRAINIAN REAL ESTATE ASSOCIATION ARE DEVELOPING A SINGLE UKRAINIAN DATA BASE OF COMPLETED REAL ESTATE TRANSACTIONS
3. Work with UAREP and UARC on adapting Russian Guild of Realtors' training or other appropriate standards	<ul style="list-style-type: none"> N/A
4. Adapt and implement IVSC standards for appraisers through Ukrainian Association of Appraisers (UTO)	<ul style="list-style-type: none"> COMPLETED
5. Organize study tours if appropriate	<ul style="list-style-type: none"> N/A
6. Price transaction database - establish multiple listing service (MLS)	<ul style="list-style-type: none"> WORK IN PROGRESS...POST-ATCI

F. Mortgage-backed Securities

1. Establish Legal Working Group to assess legal basis and regulatory framework	<ul style="list-style-type: none"> ESTABLISHED LEGAL WORKING GROUP JOINTLY WITH THE AUDIT TASK FORCE UNDER THE SSMSC AND ATCI
a) Pledge Law--multiple pledges	COMPLETED
b) Bankruptcy Statutes--pledge excluded from bankruptcy estate	COMPLETED
c) Trust Law--bondholder representative	<ul style="list-style-type: none"> PREVIOUSALLY SUBMITTED DRAFT AMENDMENTS REGARDING AGREED UPON PROCEDURES TO THE SSMSC 1528 REGULATION ON AUDIT REPORTS

	<ul style="list-style-type: none"> SSMSC PUBLISHED FOR PUBLIC DISCUSSION DRAFT AMENDMENTS REGARDING AGREED UPON PROCEDURES TO THE SSMSC'S 1528 REGULATION ON AUDIT REPORTS - JOINTLY DEVELOPED BY THE AUDIT TASK FORCE UNDER THE SSMSC AND ATCI
2. Select candidate issuer(s)	<ul style="list-style-type: none"> COMPLETED IN EARLIER QUARTER
3. Draft and introduce new amendments to covered bond law	<ul style="list-style-type: none"> ATCI ALONG WITH SSMSC SEEKING MP SPONSOR AFTER RE-EDIT AND RE-SUBMISSION OF MORTGAGE COVERED BOND DRAFT LAW (WHICH WAS DEFEATED IN FIRST QUARTER 2009)
4. Conduct educational seminars on covered bonds and adoption of amendments	<ul style="list-style-type: none"> ATCI PRESENTED ESSENTIAL DIFFERENCES BETWEEN MORTGAGE-BACKED SECURITIES AND COVERED BONDS FOR UAIB
5. Conduct portfolio analysis	<ul style="list-style-type: none"> N/A
6. Develop standardized indenture	<ul style="list-style-type: none"> N/A
7. Draft investment memorandum	<ul style="list-style-type: none"> N/A
8. Registration and Listing	<ul style="list-style-type: none"> N/A
9. Identify potential investors	<ul style="list-style-type: none"> ATCI CONTINUED TO IDENTIFY POTENTIAL INVESTORS
10. Conduct "road show"	<ul style="list-style-type: none"> N/A
11. Price and place issue	<ul style="list-style-type: none"> N/A
12. Convey issuance technology through educational seminars / articles / media event	<ul style="list-style-type: none"> N/A

LIST OF ATTACHMENTS – MORTGAGE UKRAINE

ATTACHMENT 3: IRPF Trip Report, Norman Flynn, President & CEO IRPF, September 16-24, 2009

ATTACHMENT 9: Weighted average Auction and Kiev Prime Rates September 2009

ATTACHMENT 10: Managing Mortgage Portfolio Risk - Steve Moody

ATTACHMENT 11: Housing Crisis - Steve Moody

C. FIXED INCOME

I. COMPONENT DESCRIPTION – FIXED INCOME UKRAINE

This Report provides details on the events and activities relating to the Fixed Income Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from July 1 through September 30, 2009.

The objective of the fixed income component is to expand the availability of capital to borrowers as an alternative to bank financing. Experience in developing such markets in other countries has demonstrated that corporate bonds and other fixed income instruments can offer borrower's longer-term financing at lower cost when compared to the lending practices of most banks. In fact, most banking systems rely on short-term deposits to fund loans and are comfortable with only lending working capital to businesses. While the universe of fixed-income instruments is vast, ATCI is concentrating on identifying corporations with sufficient means and inclination to issue corporate bonds. Municipal bonds, mortgage-backed bonds, and the securitization of other asset pools are expected once enabling legislation is passed. Specific objectives include issuing at least one pilot for each type of bond. Since most government securities are viewed by investors as being the least risky and frequently are used as a benchmark for pricing other debt securities issued in the market, related objectives include working with the GOU to develop longer-term Treasury securities for construction of a long-term Government yield curve.

II. SIGNIFICANT EVENTS – FIXED INCOME UKRAINE

- ON JULY 13, THE MOF ORDER ON APPROVING THE PROCEDURE FOR SELECTION AND FUNCTIONING OF PRIMARY DEALERS (NO. 757, DATED JUNE 10, 2009), DRAFTED WITH ATCI ASSISTANCE, TOOK EFFECT PROVIDING FOR THE FIRST SELECTION OF PRIMARY DEALERS TO TAKE PLACE NO LATER THAN IN MID-SEPTEMBER.
- ON JULY 21, MOF ADOPTED ORDER NO. 918 ON APPROVING THE COMPOSITION OF THE COMMISSION ON SELECTION AND FUNCTIONING OF PRIMARY DEALERS AND MODEL AGREEMENT ON COOPERATION IN GOVERNMENT SECURITIES MARKET, WITH ATCI PARTICIPATING IN ITS DRAFTING, WHICH WAS THE FINAL STEP NECESSARY TO START THE SELECTION PROCESS.
- ON AUGUST 20, MOF HELD THE FIRST TENDER SELECTING FIVE BANKS TO ACT AS PRIMARY DEALERS. SINCE THE MINIMUM REQUIRED NUMBER FOR PRIMARY DEALERS WAS SIX, ANOTHER TENDER TOOK PLACE ON SEPTEMBER 10 AND RESULTED IN ADDITIONAL FOUR PRIMARY DEALERS BEING SELECTED.
- IN AUGUST, MOF STARTED PUBLISHING THE RESULTS OF DOMESTIC GOVERNMENT BOND PLACEMENTS IN ENGLISH USING THE TEMPLATE PROVIDED BY ATCI AND PUBLISHED THE SCHEDULE OF DOMESTIC GOVERNMENT BOND PLACEMENTS TILL THE YEAR END (SEE **ATTACHMENT 8**).
- ON SEPTEMBER 23, MOF STARTED SELLING RETAIL BONDS WHICH WAS RECOMMENDED BY ATCI TOGETHER WITH AKK SPECIALISTS. THE BONDS MATURE IN 12 MONTHS, HAVE A PAR VALUE OF UAH 500 AND THE INTEREST RATE OF 16% PER ANNUM PAYING COUPON INCOME EACH QUARTER; THEY WILL BE SOLD THROUGH THE OFFICES OF THE STATE SAVINGS BANK ACROSS THE COUNTRY.

- IN AUGUST-SEPTEMBER, ATCI HAD TWO MEETINGS WITH NBU ADDRESSING THE ISSUES OF SECONDARY MARKET PRICE DISCOVERY, REPO TRANSACTIONS IN GOVERNMENT SECURITIES AND NBU SUPPORT OF INTRODUCTION OF PRIMARY DEALER SYSTEM.
- ON SEPTEMBER 30, MOF HOSTED A MEETING INITIATED BY ATCI AND ATTENDED BY REPRESENTATIVES FROM THE NBU, ALL NINE PRIMARY DEALERS SELECTED, UKRAINIAN INTERBANK CURRENCY EXCHANGE AND PFTS TO DISCUSS THE IMPLEMENTATION OF PRIMARY DEALER SYSTEM.
- ATCI CONTINUED TO HAVE MEETINGS WITH COMMERCIAL BANKS AND STOCK EXCHANGES TO IDENTIFY PROBLEMS THEY WERE FACING IN THE GOVERNMENT SECURITIES MARKET AND COMMUNICATE THEM TO MOF AND NBU.
- CABINET OF MINISTERS ADOPTED RESOLUTION NO. 865 (AUGUST 17, 2009) AMENDING THE PROCEDURE ON LOCAL BORROWING WHICH ALLOWED THE MUNICIPALITIES TO PLACE THEIR BONDS ON EXCHANGES NOT ONLY AT PAR VALUE WHICH HAD BEEN LONG RECOMMENDED BY ATCI.
- ON SEPTEMBER 7, THE FIRST REPO TRANSACTION IN GOVERNMENT SECURITIES WAS EFFECTED THROUGH PFTS NEXT TRADING SYSTEM (TOTAL AMOUNT - UAH 10 MLN (AMOUNT OF THE FIRST PART OF THE AGREEMENT - UAH 4 917 000 AND THE SECOND PART - UAH 4 966 035), REPO RATE - 13%, TERM OF THE TRANSACTION - 31 DAYS).

III. EXECUTIVE SUMMARY – FIXED INCOME UKRAINE

In order to ensure the smooth placement of government securities and improve the liquidity of the secondary market, ATCI continued to work on the establishment of primary dealer system in Ukraine, in particular, with regard to legislative basis of functioning of such system. On July 13, the MoF Order on Approving the Procedure for Selection and Functioning of Primary Dealers took effect providing for the first such selection to take place in two months. The final measure necessary was issuance on July 23 of MoF Order no. 918 On Approving the Composition of the Commission on Selection and Functioning of Primary Dealers and Model Agreement on Cooperation in Government Securities Market. ATCI participated actively in drafting of both documents in order to ensure the transparency of selection process as well as clear stating of rights and responsibilities of PDs and MoF. Once the legislative basis was in place, MoF announced the first selection tender to take place on August 20 which resulted in five banks selected as primary dealers: ING Bank Ukraine, State Savings Bank, Ukrsibbank/BNP Paribas, Raiffeisen Bank Aval and Ukrgazbank. Since the minimum required number of primary dealers was six, another selection tender was scheduled for September 10, during which four more primary dealers were selected: Rodovid Bank, OTP Bank, Unicredit Bank and Erste Bank. Out of nine primary dealers selected there were six subsidiaries of foreign (European) banks and three state-owned banks. In order for PDs to start carrying out their responsibilities, there was a need for the NBU to amend its regulations on primary auctions to ensure PDs' exclusivity and for MoF to conclude agreements with each primary dealer.

To ensure the support by the NBU of the development of domestic government bond market which would allow the latter not to be used by the GOU as the only lender, ATCI held two meetings with

bank's officials. On August 10, ATCI met with NBU's Executive Director on Economic Issues Mr. Shumylo and discussed procedure for obtaining NBU refinancing using government securities as well as the risk of domestic debt restructuring in the last quarter of 2009 (domestic debt maturing in the 4th quarter of 2009 amounts to UAH 5.562 bln). Mr. Shumylo reassured that no debt restructuring was planned, yet there was a need for the Government and the NBU announcing their short-term fiscal and monetary policy to instill more confidence in the market, also there should be a realistic estimate of revenues and expenses of the state budget.

After NBU announced its plans to start selling OVDPs from its portfolio in open market operations to support the currency and manage the liquidity, ATCI arranged a meeting with Director of Foreign Economic Relations Department Mr. Kruglyk, as well as specialists of Monetary Policy Department, to establish the nature of such decision (i.e., permanent change in policy from using NBU's certificates to using OVDPs or a temporary measure) and price discovery procedure, as well as to discuss the release of information on OTC secondary market trades in government securities. Inability to build a yield curve of the secondary market trades (at the moment, the bonds are grouped by types of maturity with no codes indicated) remains the key problem in the development of domestic government securities market since neither MoF nor the investors have a clear understanding of where the market really stands and there are no benchmarks to aid other issuers with a pricing metric. After raising this question at previous meetings with the NBU as well as in correspondence, ATCI requested once again that NBU use ISIN's when reporting secondary trades and that all trades be reported using yields of securities that reflected the price at which trades took place. However, NBU stated that there were over 40 different codes and that current method of identification short-, medium- and long-term conformed to legislative decree. The other topic was the further breakdown of holdings of OVPD's into two categories - one for primary dealers and another for state owned banks - so that potential investors in securities issued by commercial banks could better judge their risk profiles. The NBU agreed to consider such a proposal. Since the central bank saw no need in indicating bond codes when providing information on secondary market trades, ATCI addressed the MoF with suggestion to request the NBU to publish information on volumes and yields of OVDP secondary market trades broken down by bond codes or submit such information to the Ministry for further publication.

During the quarter, ATCI continued to have meetings with commercial banks and exchanges to identify problems in primary and secondary market for government securities and raise them before MoF, NBU and other authorities. Discussed at the meetings with banks was the idea of NBU permitting to hold portion of banks' required reserves in short-term domestic government bonds which would increase the demand for such bonds and their liquidity; banks seemed to support that idea in general. ATCI also met with two exchanges – Eastern European Stock Exchange (ESEE) and PFTS – out of three that qualify as trading platforms for MoF's repo transactions. Since it was established that ESEE did not have correspondent relations with NBU's Depository and necessary software for transactions in government securities, only two exchanges (PFTS and Ukrainian Interbank Currency Exchange (UICE) were likely to be used by MoF for repo. PFTS aimed at becoming more active in the secondary market for OVDPs and would like to offer its services to PDs in their providing two-sided quotations. The first step in that direction was taken on September 7 when the first repo transaction in government securities was effected through PFTS NEXT trading system (total amount - UAH 10 mln (amount of the first part of the agreement - UAH 4 917 000 and the second part - UAH 4 966 035), REPO rate - 13%, term of the transaction - 31 days).

After the nine (9) primary dealers were selected by MOF, ATCI initiated a meeting to be attended by representatives of MoF, NBU, PDs and exchanges to discuss the practical aspects of implementation of primary dealer system as well as problems in primary and secondary market of government securities.

Such meeting was held on September 30 and chaired by MoF Sovereign Debt Department. The agenda items included the status of amendments to NBU primary auctions procedure, market-making functions of primary dealers and repo transactions. Since it was important for PDs to speak with one voice in their relations with MoF, NBU and other authorities and market participants, ATCI suggested establishing primary dealers association and working committees to implement policies and improvements in following areas: settlement and clearance; issuance strategy and tactics; and trading practices. The most heated discussion took place with regard to two-sided quotations by which the primary dealers were supposed to support the secondary market thus increasing the liquidity of government securities. While ATCI stressed the importance of primary dealers' providing quotations in order-driven market where PDs would be responsible for bids/offers they make, the banks were more in favor of quote-driven market with quotes published on Reuters or PFTS exchange. Although MoF did not seem to object to banks' suggestion, following it would minimize market-making function of primary dealers thus imposing on them very little obligation in return for exclusive access to primary auctions. During the time remaining, ATCI will continue to pursue the need for market making to become the key responsibility of primary dealers. With regard to repo transactions in government securities effected by the Ministry, ATCI called for MoF's to accelerate its work on adopting necessary regulations and formalizing its relations with exchanges. The discussion reached an opinion that it was advisable to effect repo transactions with PDs based on exchange trading results. ATCI's international advisor proposed drafting a model repo agreement.

To promote the expansion of investor base in government securities, ATCI together with AKK specialists and other international experts had been recommending the GOU to start issuing retail bonds. Finally, at the end of September the MoF started selling A-series retail bonds in document form, issued on September 14, 2009. The bonds mature in 12 months, have a par value of UAH 500 and the interest rate of 16% per annum paying coupon interest each quarter; total amount of issue is UAH 200 mln. They will be sold through the offices of the State Savings Bank of Ukraine across the country with the price being fixed depending upon the number of days till the next coupon payment.

Promoting the strategy for Ukrainian city councils to place the excess treasury balances against the collateral of municipal or domestic government bonds, ATCI invited municipalities that announced their plans to issue bonds in 2009 to address the MOF with an initiative to allow placement of municipal interest-bearing bonds below par if such bonds are placed publicly at a stock exchange. In cooperation with the Institute for Budgetary and Social and Economic Research, ATCI drafted relevant amendments to the Cabinet of Ministers Procedure on Local Borrowing which were approved by the CabMin on August 17, 2009, allowing the municipalities to place their bonds at stock exchanges not only at par value but also below par, thus creating an initial cost savings for those municipalities.

IV. ADMINISTRATIVE ISSUES – FIXED INCOME UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – FIXED INCOME UKRAINE

A. Regulatory reform

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Focus on transparency and disclosure regulations at SSMSC	<ul style="list-style-type: none"> COMPLETED
2. Present round table with Association of Investment Businesses to eliminate mandatory credit ratings	<ul style="list-style-type: none"> COMPLETED
3. Draft regulations on rating agencies	<ul style="list-style-type: none"> COMPLETED
4. Participate in the working groups to amend pledge and bankruptcy laws / draft legislation to enable the use of trust	<ul style="list-style-type: none"> COMPLETED

B. Assist GOU and NBU in constructing a long-term government yield curve in Ukraine

1. Assess status of Treasury debt market and impediment to development	<ul style="list-style-type: none"> ATCI CONTINUED TO MONITOR VOLUMES, BID/ASK SPREADS AND YIELDS IN PRIMARY AND SECONDARY TREASURY DEBT MARKET MONITORED CHANGES IN THE GOVERNMENT POLICY AND COMMITMENTS REGARDING THE TREASURY DEBT MARKET (PUBLICATION OF AUGUST-DECEMBER, 2009 ISSUANCE SCHEDULE), ANNOUNCEMENTS ON YIELD AND DURATION POLICIES, DEBT MANAGEMENT STRATEGY, INTRODUCTION OF THE PRIMARY DEALER SYSTEM). ATCI MEETS WITH NBU TO CONTINUE AND EVEN EXPAND SECONDARY MARKET TRADING INFORMATION
a) Propose structure for development of Government Securities market	<ul style="list-style-type: none"> ATCI CONTINUED MONITORING GOVERNMENT AND NBU POLICIES AND REGULATIONS ON CHANGES IN THE POLICY OF DEVELOPING FINANCIAL MARKETS.
b) Propose benchmark issues for construction of medium and long term Yield Curve	<ul style="list-style-type: none"> ATCI CONTINUED MONITORING VOLUMES AND TERM STRUCTURE OF OUTSTANDING STOCK EXCHANGE-LISTED ISSUES OF THE GOVERNMENT SECURITIES; ATCI RECOMMENDS LONGER MATURITIES OF BOND ISSUANCE (POSSIBLY TO OCCUR AFTER COMING ELECTIONS)
c) Expand investor base in Government Securities	<ul style="list-style-type: none"> ON SEPTEMBER 23, MOF STARTED SELLING RETAIL BONDS WHICH WAS RECOMMENDED BY ATCI AND AKK SPECIALISTS ATCI MONITORED CHANGES IN LEGISLATION THAT ALLOW INSTITUTIONAL INVESTORS, I.E., STATE DEPOSIT INSURANCE FUND, TO INVEST

	MORE IN GOVERNMENT SECURITIES AND ESTABLISHING OF NEW PROSPECTIVE INSTITUTIONAL INVESTORS IN GOVERNMENT SECURITIES (PENSION ACCUMULATION FUND, INVESTORS' GUARANTEE FUND)
2. Assist in design of a functioning primary dealer and repo market	<ul style="list-style-type: none"> • MOF SELECTED FIRST NINE PRIMARY DEALERS WITH ATCI ASSISTING IN DEVELOPMENT OF SELECTION CRITERIA AND PROCEDURE AND REGULATION • ATCI-DRAFTED AMENDMENTS TO THE PROCEDURE ON LOCAL BORROWING WERE APPROVED BY CABMIN ALLOWING MUNICIPALITIES TO PLACE THEIR BONDS AT STOCK EXCHANGES BELOW PAR
a) Prepare standard rules for repo market activities including standardized repo agreement	<ul style="list-style-type: none"> • COMPLETED
b) Design REPO and reverse REPO market	<ul style="list-style-type: none"> • FIRST REPO TRANSACTION IN GOVERNMENT SECURITIES WAS EFFECTED THROUGH PFTS/NEXT TRADING SYSTEM (TOTAL AMOUNT - UAH 10 MLN)
c) Define activities of Primary Dealers	<ul style="list-style-type: none"> • MOF ISSUED THE ORDER NO. 918 APPROVING THE COMPOSITION OF THE COMMISSION ON SELECTION AND FUNCTIONING OF PRIMARY DEALERS AND MODEL AGREEMENT ON COOPERATION IN GOVERNMENT SECURITIES MARKET TAKING INTO ACCOUNT RECOMMENDATIONS OF ATCI
d) Development of dealer institutional framework	<ul style="list-style-type: none"> • ATCI INITIATED A ROUND TABLE TO DISCUSS THE IMPLEMENTATION OF PD SYSTEM WHICH WAS HELD BY MOF AND ATTENDED BY PRIMARY DEALERS, NBU AND STOCK EXCHANGES

LIST OF ATTACHMENTS – FIXED INCOME UKRAINE

ATTACHMENT 8: Schedule of domestic government bond placements in August-December 2009

D. MUNICIPAL FINANCE

I. EXECUTIVE SUMMARY – MUNICIPAL FINANCE UKRAINE

This Report provides details on the events and activities relating to the Municipal Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from July 1 through September 30, 2009.

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 has also been promoting 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 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, the Ministry of Housing and Communal Economy, Ministry of Finance, Ministry of Economy, Ministry of Construction and Regional Development.

II. SIGNIFICANT EVENTS – MUNICIPAL FINANCE UKRAINE

- THE PRESIDENT VETOED NEW VERSION OF THE BUDGET CODE PASSED BY THE VERKHOVNA RADA
- CABMIN ADOPTED RESOLUTION 865 AMENDING RESOLUTION 207 ON THE PROCEDURE OF LOCAL BORROWING CONTAINING ATCI AMENDMENTS
- CABMIN ADOPTED RESOLUTION 922 ALLOWING LOCAL GOVERNMENTS TO DEPOSIT FREE BALANCES IN RECAPITALIZED BANKS (UKRGAZBANK, RODOVID BANK, KYIV BANK) IN ADDITION TO STATE-OWNED BANKS; ATCI AMENDMENTS INCLUDED
- ATCI MET WITH DEPUTY MAYOR AND FINANCE DIRECTOR OF THE CITY OF ENERGOVAR
- CITY OF LVIV IS USING THE FIRST UAH 100 MLN. TRANCHE OF UAH 300 MLN. MUNICIPAL BOND FOR CONSTRUCTION OF EURO-2012 STADIUM

III. EXECUTIVE SUMMARY – MUNICIPAL FINANCE UKRAINE

ATCI continued to develop its initiative on introducing possibility of primary placement of interest bearing municipal bonds below par, if those bonds are placed publicly at a stock exchange. This would allow cities to place their bonds in significantly changeable capital market, where interest rates can increase in between approval of the decision of the City Council and market placement of municipal bonds. ATCI managed to fix this obstacle through amendments to the CabMin Resolution 207.

In cooperation with the AUC and the IBSE, ATCI developed amendments to the CabMin Resolution 207 *On Procedure of Local Borrowing* in order to simplify and make the borrowing cheaper. On August 17, 2009, CabMin adopted Resolution 865 amending Resolution 207. In particular, according to the amendments:

- if placement of municipal bonds is public and taking place on stock exchanges, municipalities are allowed to sell their bonds not only at par value but below par, thus creating initial cost savings for municipalities;
- obtaining a credit rating is no longer needed in case of loans;
- debt limits are set forth for municipalities as well as grounds for objection to their borrowing by the Ministry of Finance;
- in the assessment of compliance with the set requirements, floating and exchange rates are fixed at the level of the day before the relevant documents are submitted to the Ministry of Finance;
- only 25% of direct and guaranteed debt expenses with regard to borrowing from international financial institutions are taken into account when assessing compliance with the requirements;
- maximum levels of borrowing which do not need to be agreed upon by the Ministry of Finance are stipulated; and
- if within 30 days the Ministry of Finance does not provide its objections to municipality's draft resolution on local borrowing, such resolution is considered to be effective.

On July 27 ATCI met with deputy mayor and finance director of the City of Energodar and discussed potential municipal bond issuance, pilot repo transaction with government bonds, and advised on draft EBRD loan agreement with municipal heating and water-supply enterprise, given that the city is going to be a guarantor for the deal. The city faced with low market interest in municipal bonds, as well as in repo transaction, expressed by banks, although state-owned banks welcomed depositing city's free balances at low interest rates.

The draft Law on Local Borrowing, among others, amends Budget Code's provisions on local borrowings and guarantees. On June 23 the Verkhovna Rada adopted new version of the Budget Code, which was however vetoed by the President on July 20. Revised version of the Code is supposed to be considered by the Parliament in the fall 2009. To be finalized, the draft Law should be brought in line with new version of the Budget Code.

Plan of Action for MFF

1. Promote draft legislation, which would eliminate obstacles and ensure MFF creation and effective activities.
2. Collaborate with other donors, IFIs, and private investors on establishment of the MFF in Ukraine.
3. Continue advisory help on bond issuance to other Ukrainian municipalities at their requests.
4. Collaborate with the World Bank on a set of reforms to further develop Ukraine's sub national debt market.

IV. ADMINISTRATIVE ISSUES – MUNICIPAL FINANCE UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – MUNICIPAL FINANCE UKRAINE

A. Constraints to Bond Issuance

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Monitor GOU intergov't finance practices for credit risks	<ul style="list-style-type: none"> CABMIN ADOPTED RESOLUTION 865, DRAFTED BY ATCI, AUC AND IBSER, AMENDING RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWING
2. Participate in Drafting on Law on Local Borrowing	<ul style="list-style-type: none"> COMPLETED...NEEDS SUBMISSION BY AUC TO PARLIAMENT FOR ADOPTION
3. Assemble Legal Task Force for Municipal Issuance	<ul style="list-style-type: none"> COMPLETED
4. Develop a roadmap for bond issuance by municipalities	<ul style="list-style-type: none"> COMPLETED...ATCI DELIVERS BOND ISSUANCE TECHNOLOGY TO MUNICIPALITIES
5. A ST Advisor will investigate other legal and economic issues	<ul style="list-style-type: none"> COMPLETED

B. Prepare and Issue Pilot Bonds

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Initiation of pilot	<ul style="list-style-type: none"> COMPLETED
2. Implementation	<ul style="list-style-type: none"> COMPLETED
3. Berdyansk--Pilot Bond Development	<ul style="list-style-type: none"> COMPLETED
4. Korosten-Pilot Bond Development	<ul style="list-style-type: none"> COMPLETED
5. Cherkasy--Re-evaluate for Pilot Bond	<ul style="list-style-type: none"> COMPLETED
6. Select, evaluate, prepare 2 new Pilot Bond Cities/Utilities	<ul style="list-style-type: none"> COMPLETED
7. Luhansk	<ul style="list-style-type: none"> COMPLETED
8. L'viv	<ul style="list-style-type: none"> COMPLETED
9. Assist other municipalities upon request	<ul style="list-style-type: none"> MET WITH DEPUTY MAYOR AND FINANCE DIRECTOR OF THE CITY OF ENERGODAR AND DISCUSSED POTENTIAL MUNICIPAL BOND ISSUANCE, PILOT REPO TRANSACTION WITH GOVERNMENT BONDS, AND ADVISED ON DRAFT EBRD LOAN AGREEMENT WITH MUNICIPAL HEATING AND WATER-SUPPLY ENTERPRISE, GIVEN THAT THE CITY IS GOING TO BE A GUARANTOR FOR THE DEAL

C. Pooled Finance Facility (Municipal Finance Facility)

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Pooled Finance Conference and Development	<ul style="list-style-type: none"> N/A
2. Develop legislative basis for establishment of MFF	<ul style="list-style-type: none"> THE VERKHOVNA RADA ADOPTED NEW VERSION OF THE BUDGET CODE, WHICH WAS VETOED BY THE PRESIDENT. REVISED VERSION OF THE CODE IS SUPPOSED TO BE CONSIDERED BY THE PARLIAMENT IN THE FALL 2009. TO BE FINALIZED, THE DRAFT LAW ON LOCAL BORROWING SHOULD BE BROUGHT IN LINE WITH NEW VERSION OF THE BUDGET CODE
3. Cooperate with IBSER and AUC to present round tables on Laws on Local Borrowing and MFF	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE.
4. Secure GOU/private financing for MFF	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
5. Development of business plan	<ul style="list-style-type: none"> N/A
a) Development of implementing regulations	<ul style="list-style-type: none"> N/A
b) Development of legal and operating documents	<ul style="list-style-type: none"> N/A
6. Develop operational policies	<ul style="list-style-type: none"> N/A
7. Financial product development	<ul style="list-style-type: none"> N/A
8. Develop credit enhancements	<ul style="list-style-type: none"> N/A
9. Provide technical support for operational start-up and pilot issue	<ul style="list-style-type: none"> N/A

D. Training and Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Present workshop with AUC on bond issuance for cities <800k pop; transfer of methodology to cities through AUC	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE...COMPLETED IN EARLIER QUARTERS, YET NEED FOR FINAL SUB NATIONAL BORROWING LAW TO BE PRESENTED TO PARLIAMENT AND ADOPTED AND SIGNED

LIST OF ATTACHMENTS – FIXED INCOME UKRAINE

ATTACHMENT 4: Resolution of the Cabinet of Ministers of Ukraine No 865 of July 17, 2009 on Introducing Changes to the Procedure for Effecting Borrowings to Local Budgets

E. LEASING

I. COMPONENT DESCRIPTION – LEASING UKRAINE

This report provides details on events and Activities relating to the Leasing component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from July 1-September 30, 2009.

The Leasing Component facilitates the increase of professionals available to work in Ukraine's leasing industry, as well as increase their professional knowledge and standing, by continuing the Certified Leasing Specialist Program (CLS), a designation for market participants so that they may attain world standards of practice. ATCI has been successful in introducing the teaching of leasing at the University level and has distributed, The Leasing Manual, a textbook like manual to over 50 universities in the Ukraine.

ATCI continued efforts to promote reform of the legislative and regulatory framework for leasing, as well as tax incentives to promote capital spending and plant modernization, to facilitate industry development and entry of foreign capital into the market.

II. SIGNIFICANT EVENTS – LEASING UKRAINE

- ON JULY 8, ATCI PRESENTED THE LEASING MANUAL. THE EVENT WAS ATTENDED BY TOP OFFICIALS OF THE STATE COMMISSION FOR REGULATION OF FINANCIAL SERVICES MARKETS, USAID, REPRESENTATIVES OF LEASING COMPANIES AND HIGHER EDUCATIONAL ESTABLISHMENTS, AS WELL AS MEDIA.
- IN JULY-AUGUST, ATCI DISTRIBUTED NEARLY 500 COPIES OF THE LEASING MANUAL AMONG 53 UNIVERSITIES THROUGHOUT UKRAINE.
- USING THE GOVERNMENT DATA, ATCI HAS DETERMINED THAT THE "PENETRATION RATE," DEFINED AS THE PERCENTAGE OF CAPITAL EQUIPMENT FINANCED THROUGH LEASING, AMOUNTED TO 2.3% IN THE 2ND QUARTER OF 2009 AS COMPARED TO 9% FOR THE SAME PERIOD IN 2008. THE AMOUNT OF NEW LEASES DROPPED BY NEARLY 80% AS COMPARED TO THE PREVIOUS YEAR AND WAS USD 75 MILLION. THE LEASING PORTFOLIO AS OF JUNE 30, WAS USD 3.76 BILLION.
- THE LICENSE AGREEMENT WAS CONCLUDED BETWEEN THE CLP FOUNDATION AND THE NGO PROVIDING THE LATTER WITH EXCLUSIVE LICENSE TO ADMINISTER CLS PROGRAM IN UKRAINE.
- WITHIN THE STRATEGY OF PROMOTION OF THE CLS DESIGNATION, ATCI PUBLISHED THE 4TH ISSUE OF THE NGO'S NEWSLETTER.

III. EXECUTIVE SUMMARY – LEASING UKRAINE

The Leasing Manual drafted, edited, and published by ATCI with Certified Lease Specialists also participating in the drafting was presented on July 8, 2009 (**Attachment 5**). Participating in the event were representatives of the USAID, FSR, leasing companies, higher educational establishments and media. FSR Commissioner stressed the importance of such manual in preparing highly qualified specialists

who would have a full understanding of leasing business and how it should work, while the representative of Kyiv State Economic University noted the uniqueness of the manual presented and its role in introducing a new specialty – leasing – in the Ukrainian universities. After the presentation, ATCI started the distribution of the Leasing Manual among higher educational establishments of Ukraine supplying nearly 500 copies to 53 universities in Kyiv, Kharkiv, Sumy, Lviv, Donetsk, Odesa, Ternopil, Ivano-Frankivsk and other cities (**Attachment 6**) where it could be used as basis for curriculums to start preparing specialists in leasing. In September, Kyiv National University for Trade and Economics began developing topics for Master’s theses in leasing based on the Manual. ATCI also assisted that university in preparing their own manual, which would be more theoretical, by reviewing and commenting on material submitted by its authors.

Using data provided by the State Commission for Regulation of Financial Services Markets in Ukraine as well as State Statistics Committee of Ukraine, ATCI established that the “penetration rate,” (defined as the rate at which financial leasing is used as a method of acquiring capital equipment) amounted to 2.3% in the 2nd Quarter of 2009 as compared to 9% for the respective period in 2008. The amount of new leases decreased by nearly 80% as compared to the previous year and was estimated at USD 75 million (**Attachment 7**). Such a drop was caused by continued shortage of sources of financing available to leasing companies and lack of solvent clients.

To insure the transition and sustainability of the CLS Program to the NGO, ATCI facilitated the concluding of a license agreement between the CLP Foundation (USA) and the NGO and paid a license fee of \$500 for the NGO for the next year. Based on that agreement, the NGO has exclusive rights to administer the CLS Program in Ukraine. Also, ATCI was finalizing work on compiling a database of exam questions to be provided to CIPA-EN, exam administrator, in order to further ensure impartiality and transparency of the examination process. Work on preparing for the next CLS session, scheduled for the end of October 2009, was also conducted. ATCI assisted the NGO in reviewing of the training modules and exam questions to make sure that the high level of the CLS Program is maintained after the NGO starts administering it on its own.

In July, the NGO employed an Executive Director who would be responsible for carrying-out of its everyday activities. Set as his primary tasks were distribution of the Leasing Manual among certified lease specialists (on a gratis basis) and leasing companies (in return for a donation of UAH 200 per copy), as well as increase of the NGO’s membership since only 53 people out of 104 CLS were its members. The Executive Director sent out letters describing NGO’s objectives, previous activities and short-term plans to all members, certified specialists and leasing companies encouraging them all to cooperate; he also had the certificates of membership printed and sent out to all members of the NGO to emphasize their special status and belonging to a professional community.

Within the strategy of promotion of the CLS designation, ATCI published the 4th issue of the NGO’s newsletter. The issue touched upon the review of NGO’s activities, tax planning for leasing companies and practical aspects of cross-border leasing. The newsletter was distributed free of charge among all certified leasing specialists and leasing companies.

IV. ADMINISTRATIVE ISSUES – LEASING UKRAINE

NONE

DESCRIPTION AND STATUS OF TASKS – Leasing Ukraine

Task I. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Polling the financial community for interest in leasing courses from which successful participants will graduate as certified financial lessors 	<ul style="list-style-type: none"> ▪ COMPLETED
<ul style="list-style-type: none"> • Design and launch 1-3 day leasing seminar 	<ul style="list-style-type: none"> ▪ COMPLETED
<ul style="list-style-type: none"> • Deliver seminars for other industry participants 	<ul style="list-style-type: none"> ▪ COMPLETED
<ul style="list-style-type: none"> • Prepare and launch seminars for potential lessees and CLP trainees in the regions 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Develop strategy for CLP program for ukraine <ul style="list-style-type: none"> a) Development of content/study-guide b) Develop training modules c) Develop examination d) Establish local training providers e) Begin program f) Establishment of NGO g) Expand the CLP training regionally h) Maintain the relevance of the CLS body of knowledge and examination questions i) Establish the sustainability of NGO j) Ensure the transition of the CLS program under the auspices of NGO 	<ul style="list-style-type: none"> ▪ COMPLETED ▪ COMPLETED ▪ COMPLETED ▪ N/A ▪ COMPLETED ▪ COMPLETED ▪ N/A ▪ COMPLETED ▪ NGO'S EXECUTIVE DIRECTOR WAS EMPLOYED AND STARTED WORK ON INCREASING ITS MEMBERSHIP AND DISTRIBUTING THE LEASING MANUAL ▪ THE 4TH ISSUE OF THE NGO'S NEWSLETTER WAS PUBLISHED AND DISTRIBUTED ▪ ATCI ENSURES TRANSFER OF CLS LICENSE AGREEMENT TO NGO; PAYS FOR YEAR'S FEE ▪ ATCI-PUBLISHED LEASE MANUAL DISTRIBUTED WITH RIGHTS TO LEASE MANUAL TRANSFERRED TO NGO ▪ THE PROCESS OF TRANSFERRING THE LICENSE FOR THE CLS PROGRAM TO THE NGO FROM THE CLP FOUNDATION WAS COMPLETED. ATCI PAID THE LICENSE FEE OF \$500 FOR THE NGO FOR 2010. ▪ ATCI FINALIZED COMPILING OF THE EXAM QUESTIONS DATABASE TO BE PROVIDED TO THE EXAM ADMINISTRATOR AND COMPLETELY AUTOMATE THE EXAMINATION PROCESS

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Initiation 	<ul style="list-style-type: none"> ▪ COMPLETED
<ul style="list-style-type: none"> • Hold / participate in conf/roundtables on state of leasing industry for gov't officials, media and industry participants 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Prepare and distribute educational materials on various aspects of international best practice and practice in ukraine 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Prepare and distribute Manual on 'Leasing in Ukraine' 	<ul style="list-style-type: none"> ▪ ON JULY 8, ATCI PRESENTED THE LEASING MANUAL AT A PUBLIC EVENT. ▪ ATCI PUBLISHES 1500 COPIES OF LEASE MANUAL ▪ 500 COPIES OF THE LEASING MANUAL HAVE BEEN DISTRIBUTED AMONG CLS AND 53 UNIVERSITIES THROUGHOUT UKRAINE FREE OF CHARGE. THE NGO WILL BE RESPONSIBLE FOR FURTHER DISTRIBUTION OF THE MANUAL AMONG LEASING COMPANIES IN RETURN FOR DONATION OF UAH 200 PER COPY.

Task 3. Financial Leasing – Market Research

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Design and track a system of indicators reflecting the macro situation on the leasing market 	<ul style="list-style-type: none"> ▪ USING GOVERNMENT DATA, ATCI ESTABLISHED THAT PENETRATION RATE (RATE AT WHICH FINANCIAL LEASING IS USED AS A METHOD OF ACQUIRING CAPITAL EQUIPMENT) IN THE 2ND Q OF 2009 WAS 2.3% AS COMPARED TO 9% FOR THE SAME PERIOD IN 2008. THE AMOUNT OF NEW LEASES WAS USD 75 MILLION WHICH IS 80% LOWER THAN IN THE PREVIOUS YEAR. LEASING PORTFOLIO AS OF JUNE, 30, WAS USD 3.76 BILLION.
<ul style="list-style-type: none"> • Prepare and carry out a survey covering main leasing macro indicators 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Monitor leasing activities of major foreign banks in Ukraine 	<ul style="list-style-type: none"> ▪ N/A

Task 4. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Initiation of assistance services 	<ul style="list-style-type: none"> ▪ COMPLETED
<ul style="list-style-type: none"> • Translation-based advisory services 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Provide advisory services on selected basis to lessors and other market participants 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Assist new market entry on selected basis 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Provide consulting on organizational and management Issues 	<ul style="list-style-type: none"> ▪ N/A
<ul style="list-style-type: none"> • Assistance in securing financial sources 	<ul style="list-style-type: none"> ▪ N/A

LIST OF ATTACHMENTS – LEASING UKRAINE

ATTACHMENT 5: Press-release of the Leasing Manual Presentation (July 8, 2009)

ATTACHMENT 6: List of Universities Obtaining the Leasing Manual

ATTACHMENT 7: Leasing Market Dynamics as of the 2nd Quarter of 2009

F. CREDIT BUREAU/CREDIT RATING

I. COMPONENT DESCRIPTION – CREDIT BUREAU UKRAINE

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-September 30, 2009

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.

II. SIGNIFICANT EVENTS – CREDIT BUREAU UKRAINE

- ATCI REQUESTED FSR CHAIRMAN SUSLOV FOR HIS SUPPORT IN ELIMINATING THE MANDATORY CREDIT RATING REQUIREMENT. ATCI ALSO RECOMMENDED EXPANDING THE NUMBER OF AUTHORIZED DOMESTIC CREDIT RATING AGENCIES TO MAKE BOND ISSUANCE MORE EFFICIENT IN EFFORT TO LOWER CORRUPTION POSSIBILITIES. ATCI ENCOURAGED FSR TO CONTINUE MAINTAINING THE PROHIBITIONS AGAINST COLLECTING AGENCIES RECEIVING OR BUYING CREDIT HISTORY REPORTS.
- AT THE REQUEST OF FSR, ATCI SUBMITTED AN OVERVIEW OF THE BEST INTERNATIONAL PRACTICES FOR REGULATING CREDIT BUREAUS WHICH SHOULD ENABLE FSR TO DRAFT REGULATIONS AND TO SUPERVISE CREDIT BUREAU ACTIVITIES.
- TWO ADDITIONAL COLLECTION AGENCIES JOINED TO AUB IN SEPTEMBER 2009. THIS EVENT DEMONSTRATES THAT COLLECTION AGENCIES ARE STILL SEARCHING FOR THE METHODS TO GET PERSONAL INFORMATION OF CONSUMERS THROUGH THE BANKS VIA THE CREDIT BUREAUS.

III. COMPONENT DESCRIPTION – CREDIT RATINGS UKRAINE

This report provides details on events and activities relating to the Credit Rating component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from July 1-September 30, 2009. ATCI Credit Rating component is aimed at promoting the development of competitive, fair, and effective credit rating industry in Ukraine.

The focus for ATCI during this last portion of the project is to eliminate mandatory credit ratings requirements, through amendments to provisions of related legislative documents. In this regard, ATCI has recently partnered with the Ukrainian League of Industrialists and Entrepreneurs (ULIE) to draft credit rating legislation, eliminate mandatory credit ratings and use of national scales, and to hold public and professional forums to raise awareness of best practices.

IV. SIGNIFICANT EVENTS – CREDIT RATINGS UKRAINE

ATCI COMBINED TWO DRAFTS RELATED TO THE ELIMINATION OF MANDATORY CREDIT RATING REQUIREMENTS FOR SUBMISSION TO THE PARLIAMENT IN OCTOBER.

V. EXECUTIVE SUMMARY – CREDIT RATINGS UKRAINE

Brief Historic Note: The mandatory credit ratings requirement came into existence in late 2004. This required those credit ratings companies wanting to issue ratings in Ukraine to be selected by tender conducted by the SSMSC. One key requirement was that the ratings company be a Ukrainian legal entity. This requirement limited participants to only a few ratings and kept the internationally recognized rating agencies out all together. Only the domestic credit ratings agency, "Credit Rating (CR)" received authority from the SSMSC to offer ratings to Ukrainian issuers. Effectively, any company or municipality that wanted to issue securities had to use CR or an internationally recognized credit rating service provider, such as Moody's, Standard and Poor's, or Fitch. The mandatory requirement remains in effect to this day and accounts for the exceptional growth of CR. This expense to be in compliance with this requirement is often the reason why municipalities and other potential corporate issuers forego the possible bond issuance. It has been noted that requiring mandatory credit ratings for a bond issuance is NOT international best practices.

This quarter the SSSMSC posted on its website a Draft decision "On introducing changes to the Rules of determining by the authorized rating agency of rating by the National Rating Scale" indicating the problem will be resolved by state regulation. Meanwhile, inspections of bond issuers are carried on without ensuring continuous information of for target bond holders regarding the issuer, and settlements. The s issue cannot be solved by market mechanisms, but rather through passing an appropriate regulatory document.

The objective of state regulation in the form of passing the Draft decision of the Securities and Stock Market State Commission "On introducing changes to the Rules of determining by the authorized rating agency of rating by the National Rating Scale" is to improve protections of investor rights related to residential construction through insuring constant information of holders of target bonds, obligations for which are to be discharged by construction units and which financing is ensured by individuals' and legal entities' funds attracted through bond placement, regarding the state of construction, settlements for the target bonds and results of control over financial indicators of target bond issuers.

VI. DESCRIPTION AND STATUS OF TASKS – CB/CR UKRAINE

Task 1. Credit Bureau: Assessment of Credit Bureau Status and Establishment of Credit Bureau System in Ukraine--COMPLETED

Defined Activity	Progress made during quarter/proposed future Actions
1. Develop and establish linkages with primary international credit bureau operators	• COMPLETED
2. Secure buy-in of local data providers and users	• COMPLETED
3. Sponsor visits to potential foreign CB partners	• COMPLETED
4. Determine and review CIC development strategy with government and counterparts	• COMPLETED
5. Market best approach for structuring, establishing and operating CIC	• COMPLETED
6. Analyse and Coordinate passage of law	• COMPLETED
7. Define Business and Operations Plan	• COMPLETED
8. Outline Package of Technical Requirements	• COMPLETED

9. Discussions with Government Data Providers	<ul style="list-style-type: none"> • COMPLETED
--	---

Task 2. Credit Bureau: Development and Promotion of Credit Bureau System in Ukraine

<ul style="list-style-type: none"> • Secure Buy-in of Foreign Investors and Banks 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Develop and Deliver Package of Training Programs (banks, leasing, credit unions) 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Assist the Ministry of Justice in drafting regulations governing CB operations 	<ul style="list-style-type: none"> • ATCI CONDUCTS MEETING WITH NEW REGULATOR OF CREDIT BUREAUS, FSR • ATCI RECOMMENDS TO FSR BEST INTERNATIONAL PRACTICES FOR REGULATING CREDIT BUREAUS
<ul style="list-style-type: none"> • Deliver educational workshops for the specialists of the Ministry of Justice and other state agencies 	<ul style="list-style-type: none"> • COMPLETED
<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
CREDIT RATING COMPONENT	
<ul style="list-style-type: none"> • Assist in the development of competitive and fair ratings industry 	<ul style="list-style-type: none"> • NEW SSMSC CHAIRMAN ANNOUNCES PLANS FOR SECURITIES COMMISSION TO ELIMINATE MANDATORY CREDIT RATINGS • ATCI MEETS WITH NEW SSMSC CHAIRMAN FOR AGREEMENT TO WORK TOGETHER IN ELIMINATION OF MANDATORY CREDIT RATINGS THROUGH ELIMINATION OF RELATED PROVISIONS OF EXISTING LAWS AND REGULATIONS AND SUBMISSION OF NEW CREDIT RATING LAW • ATCI ORGANISED A SECOND ROUND TABLE ALONG WITH ULIE WITH REGARD TO ELIMINATION OF MANDATORY CREDIT RATING IN UKRAINE.
<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
<ul style="list-style-type: none"> • Market participants 	<ul style="list-style-type: none"> • DOMESTIC “CREDIT RATING” REMAINS ONLY AUTHORIZED (BY THE SSMSC) DOMESTIC CREDIT RATINGS AGENCY; ATCI STRONGLY RECOMMENDS TO SSMSC CHAIRMAN TO AUTHORIZE OTHER QUALIFIED DOMESTIC CREDIT RATINGS AGENCIES

LIST OF ATTACHMENTS – CB/CR UKRAINE

NONE

G. GENDER

I. COMPONENT DESCRIPTION – GENDER UKRAINE

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 –September 30, 2009.

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; and
- 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.

ATCI 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 – GENDER UKRAINE

- TO DATE, THERE ARE 104 CLS GRADUATES, 56 (54%) WOMEN, 48 MEN IN UKRAINE; NO FURTHER CLS TRAINING TOOK PLACE DURING THIS QUARTER; TRAINING PLANNED FOR EARLY NEXT QUARTER
- TO DATE, THERE ARE 113 CML GRADUATES, 54 WOMEN (48%), 59 MEN IN UKRAINE; NO FURTHER CML TRAINING TOOK PLACE DURING THIS QUARTER; TRAINING PLANNED FOR EARLY NEXT QUARTER
- IN MOLDOVA, WHERE ATCI COMPLETED THE PROJECT DURING FIRST QUARTER 2009, THERE WAS A TOTAL OF 131 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS; OF THIS TOTAL, 82 (OR 63%) ARE WOMEN.

III. EXECUTIVE SUMMARY – GENDER UKRAINE

N/A

IV. ADMINISTRATIVE ISSUES– GENDER UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – GENDER UKRAINE

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<p>1. Partner with Woman – run organizations (CLC & UAB)</p>	<ul style="list-style-type: none"> • ATCI IS WORKING CLOSELY WITH THE ASSOCIATION OF UKRAINIAN BANKS, THE COMMERCIAL LAW CENTER, IBSEER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY RELATED TO PRODUCT AND THE DEVELOPMENT OF SERVICES.
<p>2. Increasing the role of women in the financial sector through training and /or other initiatives</p>	<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. • TO DATE, THERE IS A TOTAL OF 217 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS IN UKRAINE; THERE IS A TOTAL OF 109 THAT ARE WOMEN, OR 51%. • IN MOLDOVA, WHERE ATCI COMPLETED THE PROJECT LAST QUARTER, THERE WAS A TOTAL OF 131 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS; OF THIS TOTAL, 82 (OR 63%) ARE WOMEN.
<p>3. Gender and cultural sensitization training</p>	<ul style="list-style-type: none"> • GENDER SENSITIVITY IS PRATCICED DAILY BY ALL ATCI STAFF DURING EVERY STAFF MEETING AND HIGHLIGHTED AT THE ANNUAL STAFF RETREAT

LIST OF ATTACHMENTS – GENDER UKRAINE

NONE

ATTACHMENT 1



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

The Access to Credit Initiative

Quarterly Review

September 10, 2009

Kevin McCown
Division Chief
Finance and Commercial Law
Office of Economic Growth

Presented by Rick Dvorin, COP

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

ATCI Mission Statement

To strengthen Ukraine's financial sector through development of the mortgage industry, financial leasing, and public finance - facilitated by a functioning credit bureau and growth of secondary market trade (in government, mortgage, municipal, and, asset-backed securities) that deepens credit markets and expands the availability of capital.

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Components of ATCI

- ❖ Fixed Income—Government Securities
- ❖ Mortgages and Mortgage-Covered Securities
- ❖ Municipal Finance
- ❖ Leasing
- ❖ Credit Bureau and Credit Ratings

This Quarterly Review will show:

(1) Key accomplishments during past three months and **(2) activities** to be accomplished by Project end-date (October 31, 2009) in each component area.

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Key Accomplishments Past 3 Months (June 10-Sept 9, 2009); Activities to be Accomplished by Project End Date (as presented June 9, 2009)

Fixed Income Component—Government Bonds and Repos

- Establishment and implementation of the Primary Dealer system, with obligations and benefits, for primary and secondary markets
 - MOF held 2 tenders for PDs; as of today, 9 Banks qualified as PDs; PD system to be initiated next auction Sept 14, 2009
- Establishment of the Repo/reverse repo market
 - PFTS concluded first Repo Sept 7, 2009, 31 days, UAH 10 million
- Improve publicity and transparency of pre-auction and post-auction information; public relations division to have continuous communications with PDs; investors; participants of gov. bond market
 - MOF speaking regularly with banks and potential investors; MOF and NBU providing data as to auction results more timely (same day) and with more detailed information primary issuance and secondary trades
- NBU to allow commercial banks to voluntarily hold agreed percentage of their required reserves in short-term government securities
 - Based on meeting with and opinion of IMF, ATCI dropping this initiative
- Amend Laws and Regulations to relax restrictions on financial institutions holdings of government securities (currently capped at 50%)
 - ATCI held meetings with Chairman Petrashko of SSMSC and Chairman Suslov of FSR bringing up these needs; both will consider adoption
- Create a saving vehicle accessible to general public of Ukraine to easily purchase government securities
 - MOF agrees; German Advisory Group taking up this initiative

OTHER Accomplishments See handout

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Key Accomplishments Past 3 Months (June 10-Sept 9, 2009); Activities to be Accomplished by Project End Date (as presented June 9, 2009)

Mortgage Component

- CabMin's and SMI's acceptance of ATCI's financing scheme to have SMI bonds issued to help provide liquidity to and help finance banks, thus activating the mortgage market
 - CabMin gave new direction to SMI financing to complete unfinished constructions; buying and selling this constructed real estate to give to governmental workers according to district and ministry allocations
- Train SMI professionals in areas related to risk management and operating in this crisis environment
 - Steve Moody has presented "Key risks of mortgage lending for risk management" at both UNIA (National Mortgage Association of Ukraine) and FSR (Financial Services Regulator), for members and staff in early Sept 2009; contacting President of SMI for same;
 - Steve had made presentations in July/August 2009 regarding the "World Financial Crisis and How it Effects Ukraine" at UNIA and FSR; SMI staff invited to attend.
- Adoption of amendments to Covered Bond Law; Assistance to mortgage lenders in Mortgage Covered Bond Issuance as requested
 - ATCI along with SSMSC scheduled to submit Draft Covered Bond Law to Parliament this month
- Ensure viability of UNIA's business plan for sustainability; assist UNIA in their trainings and capacity building efforts
 - See above re: Steve Moody presentations to UNIA and members;
 - UNIA planning Mortgage Risk Conference in September 2009; ATCI to co-sponsor if needed
- Utilization of universal appraisal methodologies in Ukraine; Effect merger of the RE associations; establishment and utilization of transaction data base
 - Norm Flynn of Intl Real Property Foundation visited Ukraine in late June 2009; will be visiting late Sept 2009 with goals of accomplishing above (2) items

ATCI Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Key Accomplishments Past 3 Months (June 10-Sept 9, 2009); Activities to be Accomplished by Project End Date (as presented June 9, 2009)

Municipal Finance Component

- Adoption of legislation on Local Borrowing
 - This legislation is related to Budget Code and must be in concert with the Code recent budget code passed by Rada but not signed
- Continued assistance to municipalities in (1) easing constraints to borrowing/issuing and (2) issuance of muni. bonds to gain efficient financing
 - See Fixed Income/CabMin adoptions of resolutions effecting local borrowings
 - ATCI assisting Energodar (pop. 52,000) in its proposed issuance of UAH 10 million, 1-3 year bond signed protocol of cooperation

Leasing Component

- Distribution of Leasing Manual
 - Presentation of Lease Manual July 2009 ATCI printed 1500 copies executed distributions to certain parties for 'donations' also Manual as basis for University courses
- Sustainability of Leasing NGO
 - CLPF transferred licensing rights of CLS from ATCI to Leasing NGO ATCI transferring web site to NGO
- Providing advisory services as requested, to existing or new leasing companies and suppliers, thus building their capacity to offer world standard services to public and SMEs

ATCI Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Key Accomplishments Past 3 Months (June 10-Sept 9, 2009); Activities to be Accomplished by Project End Date (as presented June 9, 2009)

Credit Ratings and Credit Bureau Components

- Adoption of Credit Ratings Law eliminating mandatory credit ratings; in addition, amendments to other laws effected by elimination of mandatory credit ratings, to result in greater efficiencies in issuing of securities
 - **ATCI completes identification of provisions in laws to be deleted regarding mandatory credit ratings;**
 - **SSMSC Chairman declares elimination of mandatory credit ratings; CabMin resolves elimination of mandatory credit ratings for municipalities seeking bank loans**
 - **ATCI working with SSMSC and UAIB in finalizing draft Credit Ratings Law for presentation to Rada**
- Introduction/Adoption of Law on Collection Agencies to protect customer information
 - **ATCI assisted MinJust in drafting Law; MinJust to submit to Rada**
- Further distribution of Brochure on credit bureaus to inform customers of their rights regarding credit bureaus
 - **ATCI completes distribution of Credit Bureau Brochure to banks, other financial credit institutions, and Credit Bureaus**

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Ukraine Snapshot As of September 9, 2009

Government Bonds

- Amount of government bonds placed at market rates, proceeds to State Budget: UAH 4,055,076,388 (all since May 14, 2009);
- 30 Auctions, 26 successful auctions where bonds were placed,
- Maturities from 3-6-9 months and 1-2-3 years
- Rates ranging from 18.29% - 28.0%

Mortgages

- 113 CML (as of Dec 2008); number of banks employing CML trained loan officers @ 44 (as of Sept 2008)
- As of Dec 2008, \$12-14 billion in mortgages; as of June 2008, 8.3% of GDP

Covered Bonds

- 3 mortgage-covered bonds: Ukgazbank, UAH 50 million; SMI, UAH 50 million; Bank Khreshatik, UAH 70 million

Municipals

- Since Feb 2006, ATCI assisted in the issuance of 6 pilot bonds in 4 cities: Ivano Frankivsk, Lugansk, Berdyansk, and Lviv. Total UAH 137 million. All 5-year maturity bond issues. Assisting Energodar in UAH 10 million issue.
- Secondary issues by Lugansk, UAH 50 million; and Lviv, UAH 300 million.
- Purpose of financing includes: street lighting; water facilities; road construction; repair roofs; public health; energy savings; new constructions

Leasing

- CLS – 104 (56 women, 48 men) ; 10% of all employed in leasing; 29 leasing companies employing CLS (as of 06.09)
- Leasing penetration rate : 4.1% (2008); 15.7% (2007), 2.8% (2006), less than 1% (2004-2005)
- Annual volume of new leases – UAH 9.98 billion (2008), UAH 16.9 billion (2007), UAH 3.54 billion (2006), UAH 0.8 billion (2005), UAH 0.2 billion (2004)

Credit Bureaus

- 5 licensed and operating Credit Bureaus

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Thank You

Access To Credit Initiative
Olympic Business Center
72 V. Vasylkivska Street
1st Entrance, 5th Floor
03150 Kyiv, Ukraine
Tel.: (+380 44) 537-0966
Fax: (+380 44) 537-0967
<http://www.atci.com.ua>

ATCI Funded by USAID/Ukraine, Implemented by The Pragma Corporation

ATTACHMENT 2



USAID
FROM THE AMERICAN PEOPLE

Access To CREDIT INITIATIVE

SUCCESS STORIES



UKRAINE & MOLDOVA

AUGUST 2009



The Pragma Corporation

ACCESS TO CREDIT INITIATIVE

SUCCESS STORIES

Implemented by the **Pragma Corporation**



Revolutionizing Citizens' Ability to Access Credit

The Access to Credit Initiative mobilizes loans and services in Ukraine and Moldova

Success in terms of creating new financial markets is typically thought of in dollar amounts. At the Access to Credit Initiative (ATCI), funded by USAID and implemented by The Pragma Corporation, we are concerned with the dollar value of the markets we are helping to create – but, as shown in the following stories, our real measure of success comes from the knowledge that we are helping build strong financial systems that will enable ordinary citizens and medium-sized cities to obtain credit for homes, businesses, farms, and municipal infrastructure.

ATCI had its beginnings in Ukraine in the fall of 2004 and expanded in 2007 to include a “daughter” project in Moldova. The goal of ATCI is to assist the government and private sectors in Ukraine and Moldova to make key investments in the legal, administrative, and financial infrastructure that contribute to stable and sustainable long-term economic growth. In turn, these investments – which are based on sound financing and risk assessment strategies in line with world standards of practice – provide the citizens with increased options for accessing credit.

ATCI's activities are focused on four main areas:

- **Mortgage Lending:** ATCI is laying the foundation for an efficient real estate and mortgage market in Ukraine and Moldova by helping develop a strong primary mortgage market (i.e., bank loan origination), a secondary mortgage market (through the issuance of mortgage covered bonds), and supportive infrastructure (e.g., development of credit information bureaus). We have also introduced the Certified Mortgage Lender (CML) program, which helps commercial banks and other mortgage lending institutions make mortgage loans using standardized, transparent procedures, while maintaining prudent risk assessment and underwriting standards.
- **Fixed Income:** By stimulating and developing the corporate bonds market, ATCI is expanding the availability of capital to borrowers and providing Moldova with an alternative to bank financing. A similar program is supported by ATCI in Ukraine for the domestic government bond market. ATCI has also assisted the Government of Ukraine with the development of a long-term, liquid government debt securities market in domestic treasuries and its corresponding yield curve that serves as the benchmark for the pricing of other fixed-income securities in Ukraine.
- **Municipal Finance:** ATCI is helping mid-size Ukrainian cities of 800,000 or less issue municipal bonds to fund much-needed infrastructure. Initial pilot issuances by the cities of Ivano-Frankivsk, Lviv, Berdyansk, and Luhansk amounted to UAH 136 million or US \$28 million. The proceeds of the bonds have been used to repair roads and roofs for residential housing, make improvements to street lighting, and develop and reconstruct housing and municipal utilities.
- **Financial Leasing:** ATCI has helped institute Certified Leasing Specialist programs that provide certificates to individuals who pass a series of three exams. This certification program raises the stature of professionals who work in the financial leasing industry. ATCI also provides advisory services to broaden the capacity of companies already established in the market and to assist companies new to the market.

Under Pragma's leadership and USAID guidance, ATCI continues to engage in developmental investment banking, pursuing a clear vision with continuity of purpose, methods, and personnel. The following stories are evidence of the success of our approach.

Sincerely,

Richard W. Dvorin
Chief of Party, USAID Access to Credit Initiative

A handwritten signature in black ink that reads "Richard W. Dvorin".

TABLE OF CONTENTS

- ACTI Provides Comprehensive, Practical Leasing Manual for Ukraine
- Ukraine Holds Auctions of Domestic Government Bonds at Market Rates
- ATCI Prompts Dialogue Regarding New Regulation
- Certified Mortgage Lenders Provide Customer-Oriented Service
- Municipal Bonds Market Provides Capital for Infrastructure
- New Association Promotes Professional Standards in Leasing
- ATCI Supports Opportunities for SMEs in Ukraine's Leasing Market
- Ukraine's Secondary Mortgage Market Continues to Grow
- Breakthroughs in the Development of the Ukrainian Credit Bureau Industry
- Certified Leasing Specialist Program Stimulates Ukraine's Leasing Industry
- Equipment Leasing Company Triples Its Portfolio
- Ukraine Enters the Covered Bond Market

ACTI PROVIDES COMPREHENSIVE, PRACTICAL LEASING MANUAL FOR UKRAINE

The USAID-funded ACTI project engaged a team of qualified Ukrainian leasing practitioners to write a guide to financial leasing in Ukraine drawing on their own experiences. The Leasing Manual is the first comprehensive study of financial leasing in Ukraine, and is expected to promote further leasing industry development.

In recent years, leasing has become a powerful financial mechanism for accessing fixed assets in the real sector of the Ukrainian economy. In part, this is attributable to the USAID-funded Access To Credit Initiative (ACTI) project, which has provided technical assistance to the leasing industry since 2004. By early 2009, Ukraine's leasing portfolio reached UAH 28.2 billion (US \$3.7 billion), over five times the value of the market in early 2007 (UAH 4.6 billion). As of 2009, 60 lessors were registered with Ukraine's Financial Services Regulator, including 10 major foreign equipment lessors, which import both capital and know-how into Ukraine's market.

Despite this rapid growth, Ukrainian lessors faced a number of difficulties related to legislation, taxation, availability of funding. As a follow-up to earlier assistance in establishing the Certified Leasing Specialist Training Program (2006) and the Certified Lease Specialist Union (2007), ACTI has recently produced a comprehensive, practical guide to leasing in Ukraine, the Leasing Manual, written by a team of Ukrainian leasing practitioners. This manual will become part of the curriculum of several national universities and will help students in economic faculties better understand the leasing business. The practical experience of the authors will also be helpful to leasing company specialists, bank personnel, insurance company employees, manufacturers, suppliers, and vendors who work with leasing companies. The Leasing Manual is expected to help change the attitudes of public officials towards leasing, especially, those who directly participate in legislation making. This will help leasing gain equal footing with other fields of investment activity.

The Leasing Manual is being distributed through the Certified Lease Specialist Union (www.leasepro.org.ua). It is free of charge to all 104 Certified Leasing Specialists and to over 50 higher educational establishments in 17 Ukrainian cities.

Nadiya Zhyla, Financial Services Regulator (left); Kevin McCown, Financial Sector Division Chief at USAID Ukraine (middle); and Richard Dvorin, ACTI Chief of Party proudly present the Leasing Manual to leasing companies and media on July 8th.



UKRAINE HOLDS AUCTIONS OF DOMESTIC GOVERNMENT BONDS AT MARKET RATES

ATCI efforts propel new market initiatives and systems

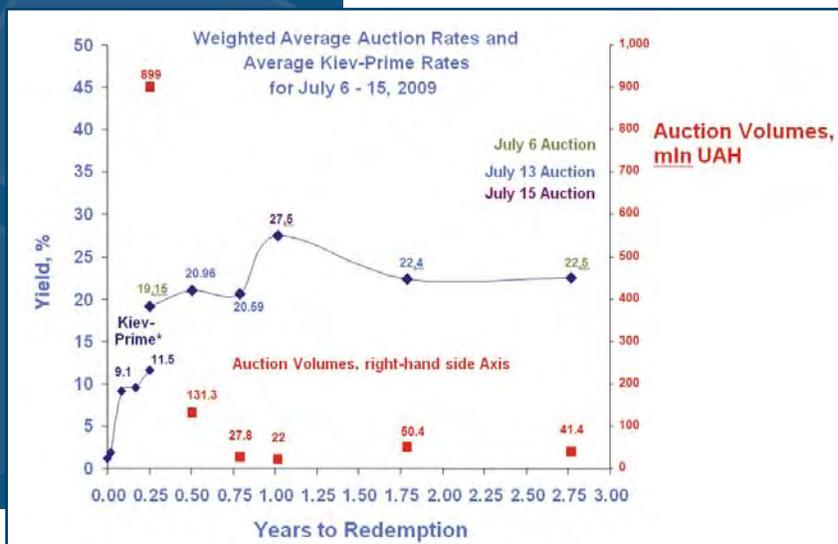
From May 14 through July 15, 2009, 22 successful single-stage, multi-price market rate auctions were held for domestic government bonds. These auctions earned about US \$368 million for the state and signaled the successful initiation of the government securities market in Ukraine. The USAID ATCI project provided assistance in helping Ukraine launch the government bond market as well as in the development of the soon-to-be implemented Primary Dealer system and repurchase agreement market.

As of December 31, 2008, public debt in Ukraine reached UAH 130.69 billion (US \$16.97 billion). About 75% of this debt (UAH 97 billion) is in foreign currency, the result of a public debt management policy that leans towards foreign borrowing – despite the significant currency risks. This orientation came about because of the high cost of borrowing in the domestic market; slow trading in the secondary market and subsequent low liquidity levels weakened the interest of domestic investors and traders in mid-term investment.

Since its inception in 2004, the USAID-funded ATCI project has partnered with the Government of Ukraine, Finance Ministry, National Bank of Ukraine, and other stakeholders to construct a long-term yield curve. In March of 2009, ATCI participated in a process to elaborate a Concept for Development of the Domestic Market of Government Securities of Ukraine for 2009–2013. This concept laid the groundwork for introducing market rate auctions for domestic government bonds, as proposed by ATCI, and for introducing the Primary Dealer system in the market.

As a result, the Ministry of Finance held 22 successful single-stage, multi-price market rate auctions for domestic government bonds between May 14 and July 15, 2009. These bonds, which had maturities ranging from 77 days to 3 years and yields ranging from 17.9% to 27.5%, contributed UAH 2.8 billion (about US \$368 million) to the state budget. Although the longest term was 3 years, the auctions have broken the ground for the pricing of longer term government bonds and other fixed income securities. The auction announcements and results (amounts, maturities and transaction prices) are posted on the official web sites of the Ministry of Finance and National Bank of Ukraine as well as on the Bloomberg Financial News Service.

ATCI has also collaborated with Ukrainian stakeholders to develop a Primary Dealer system and a repurchase (repo) agreement market. The full implementation of the Primary Dealer network is expected to occur in August 2009, when the Ministry of Finance will select between 6 and 16 commercial banks to act as primary dealers. Also in August, for the first time, repurchase agreements are expected to be enacted between the Ministry of Finance and an approved group of dealers, implementing funds from central budget.



ATCI PROMPTS DIALOGUE REGARDING NEW REGULATION

National Bank of Ukraine revises capital adequacy requirements after round table discussion

In 2008, the National Bank of Ukraine issued Regulation #458, which required higher capital adequacy ratios associated with loans of one year or longer. The regulation was designed to shore up the banking system; instead it caused an uproar among mortgage lending institutions. The USAID-funded Access to Credit Initiative facilitated a round table to discuss issues related to this new regulation as well as possible solutions. Shortly after the round table, the NBU took action to mitigate the effects of Regulation #458 on the mortgage lending industry.

In February 2008, the USAID-funded ATCI project joined with the Ukrainian National Mortgage Association to host a round table for Kyiv mortgage lenders on development threats and problems facing the mortgage lending market in Ukraine. The round table was prompted by the recent introduction of Regulation #458 by the National Bank of Ukraine. In an attempt to shore up the banking system (as a result of worldwide declines in capital markets), this regulation called for increased capital adequacy ratios for assets lent for one year or longer – including mortgages.

Many representatives of the NBU, State Mortgage Institution, and other financial regulators, as well as chairmen of the boards of over 10 of the largest banks working in Ukraine, felt that the increased capital adequacy ratios threatened the development of the mortgage market. During the round table, participants discussed the perceived threats to the mortgage lending industry as well as possible solutions. Shortly after the round table discussion, the National Bank of Ukraine implemented Regulation #30, which mitigated the effect of Regulation #458 with respect to mortgages.

According to Regulation #30, beginning on April 4, 2008, banks can use mortgage bonds issued by the State Mortgage Institution and residential mortgage loans with a 50% weighting when calculating regulatory capital adequacy. SMI state guaranteed bonds and the interest on them will have 0% weight.

In the short-term, some banks may still experience heightened pressure on regulatory capital adequacy ratios and may need to actively manage their balance sheets to prevent breaches of minimum capital requirements. In the long-term, the introduction of new regulatory capital requirements for Ukrainian banks is likely to lead to increased capital-raising activity and better liquidity management, resulting in a stronger banking system.



Round table participants listen to Andriy Kyyak, Chairman of the Board, TAS-BUSINESSBANK, as he presents his view on the new general rules for calculating regulatory capital adequacy.

CERTIFIED MORTGAGE LENDERS PROVIDE CUSTOMER-ORIENTED SERVICE

ATCI helps Ukraine develop simple, cost-effective mortgage lending



CML program graduate holds certification document showing that she is now a recognized mortgage lending industry professional.

As Ukraine's mortgage lending industry develops, savvy borrowers are starting to demand personalized, professional advice from lending institutions. To help banks deliver top-quality mortgage services to clients, the USAID-funded ACTI project, in collaboration with the Moscow-based Institute of Urban Economics, implemented a training and certification program for mortgage lending officers. To date, nearly 100 officers, representing about 40 Ukrainian banks, have become Certified Mortgage Lenders.

To sustain continued growth and satisfy consumer demand, mortgage lending officers must understand many aspects of the mortgage industry and how it affects their clients. For example, a mortgage officer should be knowledgeable about and able to advise borrowers on property and mortgage insurance; property appraisal methods, various lending formulas, coefficients, and types of interest rates; and potential legal issues. In addition, lending officers should understand internationally used underwriting processes and standards along with prudent risk assessment of mortgage credits.

Consumers can be assured of professional advice when they apply for a loan at a bank which participates in the Certified Mortgage Lender (CML) program. The CML program was launched in Ukraine in 2005 by the USAID-sponsored ATCI project in cooperation with the Institute of Urban Economics (in Moscow). This program, which has been used throughout the former Soviet Union republics to train mortgage lenders, safeguards both borrowers and lenders by ensuring that trained mortgage lending personnel are available to consult with borrowers

and write up mortgage loans following international standards and procedures. Program participants study loan origination technology, borrower underwriting, the calculation of loan payments; established mortgage-lending markets in countries such as the US and Germany; and new mortgage systems in Russia, Kazakhstan, and other transitional economies. A Certified Mortgage Lender will help loan applicants calculate the best possible loan rate, consider available financial opportunities, determine the availability of all relevant documents, and choose the best property insurance rate for their needs. Borrowers save time and gain confidence in the lending process as all their questions are answered. At the same time, banks are better protected since certified lenders evaluate each loan application carefully and completely to ensure that the loan will not incur unnecessary risks.

By mid 2008, 98 recognized professionals representing approximately 40 banks in Ukraine had been certified under the CML Program. Almost half (44%) of the new Certified Mortgage Lenders are women. This cadre of trained industry professionals, in combination with new mortgage launches by Ukrainian banks, will enable Ukrainian citizens to buy new homes, improve their living conditions, and support the overall development of the mortgage market.

To ensure sustainability of the certification process, ATCI transferred administration of the program to the Ukrainian National Mortgage Association (UNIA), once an adequate core of professional trainers existed to carry the program forward. Together with the State Mortgage Institution, UNIA is now responsible for the training and certification of mortgage personnel.

MUNICIPAL BONDS MARKET PROVIDES CAPITAL FOR INFRASTRUCTURE

ATCI pilots the emergence of municipal bonds in mid-sized Ukrainian cities

With the assistance of USAID's ATCI, four Ukrainian cities have issued pilot municipal bonds worth a combined UAH 237 million. These bonds have precipitated an emerging asset class suitable for investment by pension funds and insurance companies and provided the cities with capital for infrastructure repair and development.

Since late 2004, ATCI has been working to build a municipal bond market in Ukraine, with a focus on cities with populations of 800,000 or less. To date, the cities of Ivano-Frankivsk, Lviv, Berdyansk, and Lugansk have issued pilot municipal bonds for UAH 5.5 million, 92 million, 10 million, and 29.3 million, respectively – a total of more than US \$27 million. The proceeds of the bonds are being used for road repair, roof repairs for residential housing, improvements to street lighting, development and reconstruction of housing and municipal utilities, and other municipal needs.

The success of these initial issues has prompted many pilot cities to issue additional bonds for larger amounts. The city of Ivano-Frankivsk will issue

its next bond for UAH 16 million (Decision of the City Council from March 18, 2008); Lviv will issue a UAH 200 million bond (Decision of the Competition Commission from May 31, 2008); and Luhansk's next municipal bond will be for UAH 50 million (approval by the Ministry of Finance on May 20, 2008). Documentation to obtain borrowing approval has already been submitted to the Ministry of Finance and some approvals have already been received.

ATCI has helped Lviv—the largest of the cities preparing to issue a second bond—to prepare the next issue. On June 4, 2008, Lviv announced a competition for underwriter of the issue.

With UAH 237 million of municipal credits now outstanding, an additional 485 million UAH is waiting to be placed.

The pilot bond issues have also precipitated the formation of an emerging asset class suitable for investment by pension funds and insurance companies.

ATCI expects to expose even more cities to the technology of issuance through seminars to be held in conjunction with the Association of Ukrainian Cities later in 2008.

NEW ASSOCIATION PROMOTES PROFESSIONAL STANDARDS IN LEASING

With support from ATCI, the Certified Lease Specialist Union was established in 2007 to promote professional standards and unite certified leasing specialists under one umbrella. The association will ensure the sustainability of the certification program for leasing specialists and promote the industry as a whole.

In February 2007, with support from the USAID-funded ATCI project, the Certified Lease Specialist Union was established as a nongovernmental organization. The Union aims to maintain standards for certified leasing specialists and unite certified leasing professionals under one umbrella. In conjunction with the US Foundation of Certified Leasing Professionals, the Union certifies graduates of the Certified Leasing Specialist program; all graduates automatically become members of the Union.

The CLS program was launched in 2006 by ATCI in partnership with UKRLEASING (the National Leasing Association) and the US Foundation of Certified Leasing Professionals. By the end of 2007, 67 leasing professionals had qualified as Certified Leasing Specialists. 50 of these specialists are employed by 26 leasing companies. The total number of leasing personnel trained since program inception has reached 141 persons, or about 15% of all people employed in the industry.

The Union coordinates training sessions, maintains the professional ethics and standards of certified specialists, develops topics for professional development, and manages the content of the CLS program. Training courses are offered, under the aegis of the Union, by training providers and paid for by individuals seeking certification as leasing specialists.

With assistance from ATCI, the Union will continue to bring together leasing industry professionals who understand that sophisticated techniques are needed to expand leasing activity in Ukraine and enable it to compete internationally. The Union's sponsorship of the CLS program ensures its sustainability and promotes the leasing industry at a critical juncture when Ukraine is facing accession to the World Trade Organization and increasing global competition in financial markets.



Dmitry Bohodukhov, President of the Certified Lease Specialist Union and Director of LeaseIT, presents a CLS program graduate with a certificate.

ATCI SUPPORTS OPPORTUNITIES FOR SMEs IN UKRAINE'S LEASING MARKET

LeaseIT offers leasing of small ticket equipment

In 2004, business sales of information technology equipment in Ukraine reached approximately \$600 million, approximately \$200 million of which was sold to small and medium enterprises. Almost none of the IT equipment sold to business in Ukraine was financed through leasing or other financial instruments. The USAID-funded ACTI project has enabled the development of an innovative financial technology that offers SMEs an opportunity to lease appropriate IT technologies through a rapid application process.

In most Western countries, much of the information technology (IT) equipment purchased by businesses is acquired through financing, including leasing. Independent market researchers estimate that the business sales of IT equipment in Ukraine reached approximately \$600 million in 2004, of which approximately \$200 million were to small and medium enterprises (SMEs). However, almost none of the IT equipment sold to businesses in Ukraine is financed through leasing or other financial instruments.

In 2005, Leasing of Information Technologies, a closed joint-stock company, launched LeaseIT, an innovative financial technology that offers SMEs an opportunity to choose the information technology equipment they need for business development, secure lease financing on an application-only basis,

and obtain a decision on their credit application within 24 hours. LeaseIT is currently the only equipment leasing company in Ukraine that enables SMEs to obtain "small ticket" (less than US \$3,000) leases of IT equipment, including PCs (80%), and servers, notebooks and various peripherals (20%).

Through the USAID-funded ACTI project, LeaseIT has been able to obtain new sources of debt capital to fund the leasing of IT equipment. ATCI is also helping LeaseIT secure an equity partner, which will allow the company to expand its lendable capital at a faster rate than is now possible and secure the management talent necessary to sustain its expected growth. To assure continued growth and strengthen its market share, LeaseIT aims to increase the size of its transactions and expand services by leasing medical and small agricultural equipment as well as IT equipment.

By the end of 2006, LeaseIT had 200 retail locations owned and operated by approximately 75 retailers in six Ukrainian regions: Lugansk, Sumy, Volyn, Chernivtsi, and Kharkiv. On a volume basis, LeaseIT had an estimated 30 to 50% of Ukraine's retail IT market. Currently, the company is experiencing a nearly 100% increase in lease volume each month. The parent company, Leasing of Information Technologies, reports that LeaseIT retailers have reported annual sales increases of approximately 30%, much of which is attributable to the availability of LeaseIT technology.

UKRAINE'S SECONDARY MORTGAGE MARKET CONTINUES TO GROW

Active covered bond trading spurs new issues and needed legal changes

During March and April 2007, the PFTS stock exchange witnessed seven trades of UkrGasbank's pilot mortgage covered bond, which was issued in early 2007. The trades totaled about UAH 73 million or nearly 1.5 times the value of the original issue. This activity has encouraged UkrGasbank to issue a second covered bond and has prompted the USAID-funded ATCI project and market participants to draft amendments to the Covered Bond Law that will facilitate the issuance process.

In early 2007, 18 months of intensive work by UkrGasbank and the USAID-funded ATCI project came to fruition with the successful placement of UkrGasbank's UAH 50 million pilot mortgage covered bond. During March and April 2007, the PFTS stock exchange witnessed seven trades of this pilot issue, which were valued at about UAH 73 million, nearly 1.5 times that of the original issue.

The active trading associated with the pilot issue demonstrates the high

liquidity of the bond. It also shows that investors understand the secure features of the mortgage covered bonds and are prepared to accept lower yields in exchange for lower risk. According to Yuriy Kamenetskiy, Director of Investment Department with UkrGasbank, "The success with pilot mortgage covered bonds is demonstrated by trades in the secondary market. The volume of the trades is big and will be growing rapidly. I believe this growth will be enhanced by growing demand from the side of pension funds and insurance companies."

Building on the success of its pilot issue and subsequent trading volume, UkrGasbank decided to issue a second covered bond for UAH 500 million (about US \$100 million). To ensure the success of new covered mortgage bond issues, ATCI is working with UkrGasbank, the Ukrainian National Mortgage Association, and other market participants to amend aspects of the Covered Bond Law. The amendments are expected to ease the issuance of covered mortgage bonds, and support trade worth billions of US dollars.

BREAKTHROUGHS IN THE DEVELOPMENT OF THE UKRAINIAN CREDIT BUREAU INDUSTRY



The engagement of Creditinfo as the international operator for the First National Bureau of Credit Histories represents a breakthrough for Ukraine's credit bureau industry.

Ukraine's newly developed credit bureau industry experienced a recent breakthrough when a Ukrainian credit bureau designated an international firm as its operator. Thanks to the USAID-funded ACTI project, Ukraine has also enacted new licensing requirements and other regulations that will help develop the Ukrainian credit bureau industry in line with international standards.

In markets around the world, credit bureaus enable the expansion of credit for home ownership, SME development, and job creation. Loans must be based on good information and access to a person's credit history – the size of existing debts, the pattern and timeliness of monthly payments, and the type of credit previously obtained – helps a bank define the creditworthiness of a loan applicant. Borrowers with excellent credit histories can usually obtain credit at the lowest possible rate. Individual and organizational credit histories are obtained through credit bureaus, private entities that gather and provide credit histories.

As the Ukrainian economy expands, income levels rise, and the banking sector becomes more advanced, more and more Ukrainians are applying for bank loans to buy houses or start new businesses. The increased demand for credit requires that banks expand their capacity to extend low-risk loans. To do this, Ukraine needs reliable, responsible credit bureaus that follow international best practices and standards.

USAID assisted with the development of a crucial law called "On Establishment and Circulation of Credit Histories" that laid the groundwork for the establishment of credit bureaus in Ukraine. Subsequently, the USAID-funded ATCI project developed a business plan with

specific steps to help establish and further develop the credit bureau industry. This plan stressed the importance of resolving credit bureau shareholder issues, minimizing data fragmentation, and engaging a credible international credit bureau operator.

In the summer of 2006, after months of negotiations and continued assistance from ATCI, a Ukrainian credit bureau, the First National Bureau of Credit Histories, announced that the Creditinfo Group Hf. (Iceland) had won a tender to become its international operator. Creditinfo is now a shareholder of two Ukrainian credit bureaus, the International Bureau of Credit Histories and the First National Bureau of Credit Histories. As a vendor of credit bureau systems and related services, Creditinfo will draw on know-how and experience gained from implementing similar credit bureau projects in many countries.

ATCI also helped the Ukraine's Ministry of Justice, which is responsible for regulating credit bureau operations, draft a key regulation on licensing requirements for credit bureaus. The regulation was approved in December 2006, and in January 2007, both the First National Bureau of Credit Histories and the International Bureau of Credit Histories received licenses. These credit bureaus, which follow internationally accepted standards of practice, are currently developing expertise in data gathering and processing; the commercial sale of credit reports is expected soon.

ATCI continues to support the Ministry of Justice in regulatory reform and is currently helping to draft regulations on a unified registry and on credit bureau inspections, as well as other instructions and recommendations for the market. Once credit reports are commercially available, ATCI intends to initiate a public awareness campaign that targets both market participants and the general public.

CERTIFIED LEASING SPECIALIST PROGRAM STIMULATES UKRAINE'S LEASING INDUSTRY

New certification program sponsored by USAID-funded ATCI project provides Ukraine's fledgling leasing industry with qualified specialists. In 2006, the program graduated 26 individuals as Certified Leasing Specialists.

Although Ukraine's leasing industry has experienced strong growth overall – with a threefold increase in the number of leasing companies and a fourfold increase in the number of leasing industry employees – the value of lease financing in Ukraine is still very low compared to other countries. In 2005, less than 2% of all investment in fixed assets in Ukraine was financed through leasing compared to an average of approximately 15% in other Central and Eastern Europe countries. One of the major problems facing the industry is lack of qualified leasing specialists. Companies are often unable to source key personnel with the requisite skills and there are few training providers to assist companies in developing qualified leasing specialists.

To build professional development in the leasing industry and thus help grow the associated markets, USAID's ATCI, in partnership with UKRLEASING (the National Leasing Association) and the US Foundation of Certified Leasing Professionals, launched the Certified Leasing Specialist Program. ATCI developed the training course, which includes 13 training topics split into three modules, and held three introductory seminars to explain and promote the program. During these seminars, highlights of the program were presented to leasing industry experts and potential trainers.

As of 2006, 26 individuals had passed the ATCI exam and received certificates that recognized their core competencies. Among the graduates were 12 directors of leasing companies, and 14 consulting company representatives who have the potential to become training providers.

In the future, ATCI aims to create a professional society of Certified Leasing Specialists, which would offer courses for individuals seeking to become Certified Leasing Specialists. The organization would also organize seminars, observe and maintain the ethics and professional standards of certified specialists, expand training topics for further professional development of certified specialists, and manage the certification program content.



Earl Gast, USAID Mission Director to Ukraine, Moldova, and Belarus, presents a graduate of the Certified Leasing Specialist program with a certificate.

EQUIPMENT LEASING COMPANY TRIPLES ITS PORTFOLIO

ACTI project facilitates linkages that expand business opportunities

With assistance from the USAID-funded ATCI project, the Lviv-based Leasing House company has nearly tripled its portfolio of existing leases, from UAH 49 million to UAH 130 million.

The USAID-sponsored ATCI project is working to create a supportive environment for Ukraine's financial leasing industry and provides specific technical, advisory, and training assistance in order to increase access to credit throughout Ukraine. ATCI's capacity building effort strengthens existing leasing companies by conducting seminars and delivering advisory services for lessors, lessees, farmers, regulators, vendors, and banks.

ATCI has been working with the Lviv-based Leasing House company since April 2005. Leasing House, one of the largest equipment lessors in Ukraine, founded in November 2001 with the statutory fund of UAH 720,000, focuses predominately on the financing of capital equipment. According to Leasing House management, the company has experienced a growth in annual lease volume of approximately 500% over the last 2½ years.

In October 2005, the Managing Director of Leasing House, Mr. Sytyuk, gave a presentation at the seminar "Leasing Practice in Ukraine," which

was co-sponsored by ATCI and the Ukrainian League of Industrialists and Entrepreneurs. Leasing House received a number of referrals from potential lessees as a result of this presentation, and was able to turn several of the referrals into a substantial amount of business. During 2006 and 2007, Leasing House hosted four volunteer leasing experts brought to Ukraine under the auspices of the Citizens Network for Foreign Affairs (CNFA). The CNFA volunteers helped advise Leasing House on issues related to marketing, credit, and strategic management.

According to Leasing House, the company's annual lease value increased to UAH 25 million in 2006, more than double the 2005 value of UAH 12 million. During 2007, Leasing House expects an annual lease value of approximately UAH 70 million. The company's portfolio of existing leases has risen from a previous value of about UAH 49 million to UAH 130 million.

Leasing House recently completed a private placement bond issue for approximately UAH 8 million and plans to raise additional capital. ATCI will continue advisory services to Leasing House in matters related to raising additional capital as well as in marketing and sales strategy, both directly and in cooperation with CNFA.

UKRAINE ENTERS THE COVERED BOND MARKET

ATCI-supported pilot issue improves outlook for home buyers and institutional investors

The successful placement of Ukrgasbank's pilot mortgage covered bond signals Ukraine's entry into the US \$2 trillion European mortgage covered bond market. The USAID ATCI project facilitated the development of the pilot UAH 50 million bond, which was oversubscribed at the offering rate of 10.5% for three years. Over the next several years, the growth of this new market is expected to lower mortgage interest rates and make credit more available.

Experts view the creation of a secondary mortgage market in Ukraine as a major objective for development of the nation's financial system. The successful placement of Ukrgasbank's pilot UAH 50 million mortgage covered bond (offered at 10.5% for three years and oversubscribed) represents Ukraine's entry into the US \$2 trillion European mortgage covered bond market. The pilot bond is the result of 18 months of intensive work by the USAID-funded ATCI project and its counterparts and the culmination of four years of preparation by USAID that began with passage of the mortgage law.

This new instrument enables financial institutions to liquefy in excess of US 4 billion in outstanding mortgages currently held in portfolios throughout Ukraine. It offers an appropriate investment vehicle, with minimal credit risk, for domestic pension funds and insurance companies. Beginning in 2009 with the implementation of Ukraine's

second pillar of pension reform, these institutional investors are expected to have upwards of US \$150 million to invest each month – thus the new market is a welcome investment vehicle.

ATCI supported the development of an effective mortgage lending sector in Ukraine in a number of ways. First, project advisors drafted the implementing regulations for the Covered Bond Law and secured their adoption by the Securities and Stock Market State Commission and subsequent registration by the Ministry of Justice. ATCI also helped select banks willing to participate in the secondary mortgage and ensured these banks had updated software to support their activities in this area. With respect to the bond issue itself, ATCI drafted the master agreements that govern the relationships between the issuer, the bond manager, and the auditor, and prepared materials to help the issuer marketing the bond. Finally, ATCI made investor calls, gave separate presentations to 10 institutional investors to explain the unique features of the bond and its indicative pricing, and participated in the marketing "road show."

Within the next five years, ATCI anticipates that this pilot issue will precipitate billions of dollars worth of trade in the covered mortgage bond market. This trade will result in lower lending rates and increased availability of credit for Ukrainian home buyers while expanding the investment options in tradable securities for the domestic fixed-income market.



SUCCESS STORIES

ACCESS TO CREDIT INITIATIVE

UKRAINE & MOLDOVA

AUGUST 2009



The Pragma Corporation
116 East Broad St.
Falls Church, VA 22046
Tel: 703 237-9303
Fax: 703 237-9326
<www.pragmacorp.com>

ATTACHMENT 3



USAID
FROM THE AMERICAN PEOPLE

TRIP REPORT

UKRAINE

SEPTEMBER 16-24, 2009

INTERNATIONAL REAL PROPERTY FOUNDATION

*USAID ATCI Project, implemented by The Pragma Corporation – Twentieth Quarterly Report
Attachment 3: IRPF Trip Report*

BY: NORMAN D. FLYNN, PRESIDENT & CEO

**TRIP REPORT
UKRAINE
SEPTEMBER 16-24, 2009
INTERNATIONAL REAL PROPERTY FOUNDATION
BY: NORMAN D. FLYNN, PRESIDENT & CEO**

Meeting with the “Club”

I traveled overnight from the United States to Ukraine on September 16th arriving in the late afternoon on September 17. Within 30 minutes, I was at a meeting with four members of the Ukrainian Realtors Association. They were Olena Pohovskaya, Anatoliy Topal, Henrich Lyndrevich, and Alexander Bondarenko. They first explained to me that the market had substantially imploded. In 2009, they reported that only 740 mortgages had been issued nationwide. For any foreign exchanges, there were no mortgages available and according to them, appraisers aren't being used by the banks and banks are doing their own evaluation. Those borrowers that are below 25 or over 50 need not even apply for a mortgage because it's impossible to get.

They then informed me that they had put together an informal “club” one year ago. While they were surreptitious about how many were in the club, anyone new to the club had to be unanimously approved. The most recent addition was Grigoriy Apresdov who is the Regional Chairman from Sevastopol. The club meets only when they like and they take membership from the Union, the URA, the Guild and non-members. It is called the “Realtor Club of Ukraine.” They have done television interviews and magazine articles on topics of the day.

They believe that they have real capacity to get things done and the purpose of the club is to provide a forum for intellectual discourse on real estate issues of the day.

They then confided that Shulga had terminated Bondarenko's office in the URA. This aggravated Bondarenko and he felt that it was done in a fashion that was detrimental to his reputation. He felt that it was done so that Shulga could fire Vladislav Orlov, the Executive Vice President for the prior 13 years.

They then asked if there were any issues that I'd like them to think about and I told them that they should continue working on the merger and to increase the turnover of leadership in the regionals. Regarding the merger, they all felt that speaking with a single

voice would be an appropriate way to organize and they would encourage the various groups to continue working on a common standard of practice, code of ethics, and continue to support the certification programs. They believe that a merger had been put together but that it was blown apart by the election of Andrey Shulga.

I'm not sure what reaction they expected from me by disclosing that this "renegade" group had formed. I told them that there were similar groups in other parts of the world

where the purpose was fundamentally intellectual as opposed to political organization. I told them as long as they supported the basic principals of quality representation in real estate that it was right and proper. My hunch is that they are all active in this organization because they were insiders under the Bondarenko team and suddenly became "outsiders" when Shulga was elected. Shulga is aware of this group as he explained in the later meeting. He does not see it as a significant threat to the Association or its long-term longevity.

Friday, 10:00 a.m.
Meeting with Pragma

We met next with Rick Dvorin, Chief of Party and Dennis Grubb of Pragma. They had told us earlier that the project would end at the end of September with a close-out September 30th. They have been given a 30-day extension through October but that it certainly would close then. USAID has put forward a new proposal that is currently being bid on (of which Pragma is not bidding). There are four components in it, one of which is the development of a mortgage bond market. Since that was a substantial part of Pragma's work, they feel that there may be some opportunity for them to provide additional expertise in continuing to develop the mortgage bond market.

They have established a National Mortgage Association which they hope will continue and will help drive mortgages into the future. On balance, it was their belief that the bulk of the items in the Scope of Work for both Pragma and IRPF in the Access to Credit Initiative (ATCI) had been met. The depth and strength of those institutions and resulting activities has been hampered by the current state of the economy. It is clear that the housing market, the mortgage market and banks' involvements in mortgages has diminished remarkably with this slowdown.

They did recommend that we would put future courses of action recommendations in our final report to USAID for our involvement here in Ukraine and in the ATCI.

Meeting with Vladislov Orlov
Friday, September 16, 2009 12:00 p.m.

Vladislov Orlov appears to be near the end of his activities as Executive Vice President of the URA. It is common knowledge among the Board Members and others active in the Association that Andrey Shulga does want him terminated. They have actually put out searches for EVP's at the moment without much success.

He is no longer involved in any policy matters or any decision making. He has many diverging opinions with Shulga and, therefore, has been foreclosed from any heavy participation. He has not been terribly involved in Association work, therefore, he believes that the Association is turning to be more “commercial.” When asked to explain, it turns out he means a greater reliance on non-dues income.

At the last Board Meeting, he was offered an opportunity to resign which he refused. He still has regional support on the Board to maintain his position at least for the moment. Because of the strain on his position, it has created a bit of split in the Board of Directors and therefore, the Association. He contends that a number of Regional leaders have contacted him asking him to stay. It is his belief that if he is fired, many of the members of URA will quit.

Regarding the merger, it was agreed to and now it is not being openly discussed. It should have been finished but Orlov believes that Bondarenko got distracted. Many of the activities that the Association had been involved in under Bondarenko including the heavy political involvement now do not exist. Shulga is trying to add non-dues income ventures including the data collection and possible MLS activities.

Orlov is concerned that Shulga is living on the reserves of the Association. There had been a reported accumulated \$180,000 from both Certification Program and an Institute of Real Estate Management Course that had been held in four segments in 2007 and 2008.

Regarding certification, Orlov asserted that the 2000 distant learning programs had all been sold and that many of the 6-day courses had been held. The assumption is that over 3,000 people have gone through the course although the actual certified numbers are substantially less. This is due to the fact that a person cannot be certified unless they are a member of a Regional Association subscribing to a Code of Ethics. Some of the Regionals will not allow people to be added to their ranks.

Orlov believes that URA is the only truly solvent Association of those that are in existence in the country. The Union is living on broker contributions which are now substantially less.

He also indicated that the Ukrainian Guild of Realtors was also not really “professional.”

In discussing the staff at URA, Orlov said they now have 4 full-time and 1 part-time individuals. Shulga has added an outside consultant who is a press secretary and was from Shulga’s office. They have fired their IT guy and when Orlov goes, he believes the accountant will also leave.

The membership of URA is between 1,100 and 1,200. That number is consistent over the last year even though a number have been lost they still continue to recruit new members.

As to the state of the business, current interest rates are between 24%-26%. Of the 180 banks in the country only 64 hold themselves out to making loans. Unfortunately those loans are now very unaffordable.

Regarding the multiple listing system (MLS), some have attempted to design MLS's and there are in the Regions, a number of these in existence: Yalta, Donesk, Sevastopol, Odessa, Marispol. He believes that the National Association should set common

standards to make this a top priority and determine rules for all MLS's into which to function.

Meeting with Arthur Ohanesyan
3:00 p.m.

Peter Shuttleworth and I then met with Arthur Ohanesyan (see Peter's report for more detailed information). Arthur has identified four problems in getting the MLS together:

- 1) No cultural affinity for sharing or splitting commissions;
- 2) A misunderstanding of exclusive listings and how to get them;
- 3) Continuation of taxation concerns which can range from 1%-15% at transfer, forcing sellers to be non-transparent in the transaction;
- 4) The sharing of fees and commissions has substantial resistance.

We discussed a series of ways in which we might proceed in the future. It was Arthur's general feeling that to start a demonstration project would be a great way to have people that could then study the impacts of multiple listing in their own cities. He offered Cherkasy as a possible basic site to start the MLS. This city has 65 agencies and 300-400 agents and, therefore, is a workable size organization to deal with. The population of Cherkasy is approximately 400,000.

We then discussed the leadership of how this might be put together and asked how he would work with Oleg Ochton. He said he would be delighted to work with Oleg and that we should be assured that Shulga supports the activity. I told him I would be meeting with Shulga later in the trip and I would get his commitment that he would support the activity.

Arthur is a very enthusiastic and knowledgeable realtor. He has spent several trips to the United States serving internships for months at a time so he is completely familiar with how the Multiple Listing System works in the United States. He is equally committed to exclusive listings and has put on day and a half courses of which over 2,000 people have completed in the last year and a half at a cost to each individual of \$250. Since he has put the course on in Cherkasy on a regular basis there are great numbers there that believe in exclusive listings and so some of the impediments that are experienced in other markets might be lesser there.

Meeting with the UTO

At 10:30 a.m. we met with Olena Koval, the Chairman of the Appraisal Certification Committee and former president for 11 years of the Society of Appraisers of Ukraine (UTO). She, like many of the brokers and appraisers in the market, is extremely depressed by the business climate within the country. She disputed the comments made by the “Club” members that banks were not using appraisers. She only knew of one bank

that had appointed its own internal appraisal organization. The rest still used arm’s length, third party appraisers. The problem was they just aren’t making many loans and so therefore the business of the average appraiser is substantially off.

There are continued attacks in the legislature on the appraisal law. What they are really attempting to attack is regulating financial flows and in the process they keep trying to adjust the appraisal law. They publish lies in newspapers which make it difficult for appraisers to respond. There are three draft laws that are currently circulating within the legislative circles, none of which are terribly acceptable. UTO is attempting to merge those into a single law but her point in attempting to do that is “like playing poker with professional cheaters.”

In commenting on UTO’s own membership, she indicates a new phenomenon is occurring where as many of her members, especially the higher level ones are traveling to Moscow to take the Royal Institution of Chartered Surveyors (RICS) training. There is an office of RICS in Moscow and also an individual has been appointed to set up an RICS Chapter in Ukraine. The head of that is Serge Ovcharov. The courses cost members \$4,000 to complete, and the reason why the members are seeking the RICS designation is that because many of the banks in Ukraine are owned by European banks and they are now specifying that especially in larger transactions and mortgages that a RICS valuer be retained. There are currently approximately 20 RICS members in Ukraine. When it hits 100, they will have sufficient numbers to form a full Chapter. As to the Certification Program, RICS certifies through its membership as does the American Society of Appraisers. She complains that IVSC never promised a certificate or certification and therefore it has been difficult for her to continue to push to finalize the IVSC certification program.

She believes that there is considerable competition among the appraisers and that competition has increased because of the low number of mortgages the banks are issuing and because all the privatization in the country has now stopped and so no appraisals are needed for privatizing.

They have the mechanism in place for independent certification, but the Board still has not been registered. They have requested from IVSC a “no objection” letter on the form of their registration system. This, she believes, is in the hands of the Training Committee of IVSC to gain that approval.

She believes that they are within two months of finalizing the IVSC Certification Board and registration methodology. She has agreement from all the end-users to participate.

Compounding the difficulties of finalizing this certification methodology is that appraisers don't have extra money at this moment. They are extremely careful with their dollars and are not expending those which are not deemed to be absolutely vital.

They indicated they had been negotiating with the URA on the data base project and that

their concern is who pays for the information that goes into the data base and they want to know that the data base project will, in fact, work. As an aside, several appraisers have published a book where they have done appraised values on properties which have been transferred, and priced them to what they consider to be market. It is being used by other appraisers as a reference for what values really do exist in the marketplace.

Olena is still committed to IVSC activities. She would like to have IRPF request of IVSC if Ukraine could be made a Regional Center of IVSC-activities including Belarus, Kazakhstan, Russia and themselves. She would push forward and develop the Standards of Certification Boards, courses and trainings that would lead to certification and testing devices that would meet the ISO regulations.

She did confess that as markets rebound she would bring the IVSC certification program back and finalize it so that the members who had completed certain coursework could, in fact, meet these standards.

Meeting with Oleg Ochton

At approximately 12:30 p.m., we met with Oleg Ochton to discuss his involvement in the development of an MLS system in Ukraine. He still believes it is an important aspect to be added into their market and that it will bring both transparency and increased business for the real estate industry.

He also gave insights as to the Kiev market. In a normal year, they would do 30,000 transactions. They are currently doing 250-300 per month which means that the market is off nearly 90%. He says that this is having a major impact on all of the companies and that there is a great deal of shrinkage now going on in the market.

Peter Shuttleworth discussed with Oleg a series of technical aspects which he asked Peter to comment on (see his report for the details of those technical aspects).

When asked what we needed to do to get the MLS moving in the country, he suggested that:

- 1) IRPF pressing the issue on a regular basis has helped them keep MLS in the forefront of their thinking as to where they should go in the future.
- 2) He indicated that software assistance wasn't really needed. That they had significant software within the country and the capacity to modify it to allow MLS work.
- 3) There needs to be an aggressive education program because 99% of the members do not understand what MLS is and feel that property aggregation itself is MLS.

We asked him if he would participate in a committee to put together a model MLS system that then could be viewed by the rest of the market and emulated. He agreed to do so. We asked him if Kiev would be a market that that model should be set up in and he strongly said "No." We then asked him about Cherkasy and Arthur's willingness to participate in that city. He felt that that would be of appropriate size and distance away and would be happy to work with Arthur in Cherkasy.

It appears that we have a willing participant and one with deep experience and background in real estate in Ukraine to assist in setting up a model MLS. It may be that the MLS will not be completely successful until the market improves substantially. On the other hand, as the market is very soft, more brokers will look for new ways in which to create business and therefore that presents an opportunity for the MLS to be started.

Meeting with the URA
September 22, 2009

After a briefing meeting between Peter and me, I went to the URA and Peter did work with Arthur Ohanesyan.

At 1:45 p.m., I met with Andrey Shulga, President of the URA. He indicated that the business is very slow and that things aren't going as he had expected. The Association is financially stable because of its reserves and his belief is that it is the only professional association active on the market. They have some basic understandings with the Guild of Realtors in Kharkiv but no written agreement. They have continuing discussions with the Union which he chairs with the two Vice-Presidents of the Union. He believes that there is common ground between the three larger Associations. Shulga told me that there is a memorandum setting standards of real estate activity that has been signed by all three organizations.

There are still some problems remaining. Rubanov went public saying that he wouldn't merge with the URA even though there was no rational reason for him to make that statement at this particular news conference. In addition, the Guild sticks with its own message and while they are fully cooperating, they have not signed an agreement.

Shulga said that they have increased membership to 1,200 in spite of the major recession. Ten to fifteen percent of the members have been expelled for non-payment although they

have set up a “payment-over-time” schedule for the remaining balance. They have collected approximately 30% of the proposed dues for the year.

He acknowledged the opposition from smaller groups (read the “Club”). He feels they are full of criticism but not many constructive comments. The URA is working on a Standards of Practice draft law which would set up self regulating organizations. He believes that that would help to solidify the real estate profession and might go so far as to eliminate the need for Associations in the future. I attempted to disabuse him of this

general idea inasmuch as that the setting up Standards of Practice and a law does not negate the need for participation in amending that law and helping members become more profitable and successful.

We next discussed the data collection project. He has run into problems getting financing for the project. His business plan calls for a \$75,000 investment after which time certain profits would be earned. I committed to him \$21,000 and said I would send him a letter committing that money so he could use that to help find additional financing. I gave him the name of Dominique Menu from BNP Parabus in Ukraine that was given to me by David Lucterhand. I will assist Shulga in contacting him. Shulga is considering sponsoring the next CERAN Conference and is looking for a month in which to analyze whether or not that would be a profitable venture. He would be happy to host it if there were relatively positive options for profit but, at the moment and in the condition of the economy, could not stand the loss. I told him that IRPF would send him Joe Hanauer’s speech from the last CERAN Conference held September 11 and 12.

We next met with Ludmilla Caftanjuk who is responsible for the recording of the Certifications. She had only records for 2008 and 2009. She indicated that during those 2 years, 1,220 people had physically taken the course and of that number, 278 actually belonged to Regional Associations and were properly certified. In addition, of the 2,000 distance learning packages they had, one-half of which went to the developer of the package and one-half to the Association, they have sold approximately 75% of theirs and are unaware of how many the sponsor had sold. The assumption by both Orlov and Shulga was that all 1,000 had already been sold by the sponsor. That would bring us to approximately 4,000 people that have taken the course without going back to pre-2008. On their books, there are 590 certified members of Regions in the Association.

I suggest that the Association pass a regulation that would indicate that any person who takes the certification courses and successfully completes them, makes application to any Region, agrees to the Code of Ethics and pays the dues, should automatically be awarded membership. Within the Regions, there are Presidents that have been Regional Heads for 12-13 years. It is in their best interest not to increase the size of the Regions because they would lose political power. They also are using the Regional Association as a personal referral network. If anyone is looking for a broker, they call the Regional organization. Serious remedial activity has to occur to create more turn-over on the leadership and more vibrancy within the Regions.

Meeting with USAID - Kevin McCown
September 23, 2009

We met with Kevin McCown, Private Sector Advisor, Office of Economic Growth USAID. Kevin had been transferred from Ghana two months ago so was relatively unfamiliar with IRPF, and our program with Pragma.

We briefed him thoroughly. Rick Dvorin had suggested that the new initiative USAID was beginning had a component focusing on Mortgage Bond Activity which is a direct spin-off of ACTI. Kevin said he would welcome suggestions for furthering our activities in Ukraine.

Summary and Conclusions

The trip gave clear evidence that the financial crisis which encircles the world and the real estate environment has had dramatic impacts in Ukraine. It shows business dropping up to 90%, banks fundamentally out of the real estate mortgage business, appraisers suffering substantial competition due to lack of business and a market that is moribund. In spite of this, there is some optimism among a number of the members that the initiatives that we have been working on for the past two years have a real opportunity for final integration. It is clear to me that the Certification of Brokers Program has been successful. With minor modifications in the Ukrainian Realtors Associations Regulations and Statutes they could easily have 3,000-4,000 certified brokers at the moment. That would be a substantially high percentage of those that are currently active in the market, although at one point there were over 100,000 people in the business, and that number is now estimated at somewhere between 15,000-20,000.

The certification of appraisers is also fully in place and the mechanism to both host the certification board and an agreement by the end users to participate is reality. What remains to be done is to have enough activity in the market to, in fact, implement the IVSC Standards. In addition, there is a need for us to stimulate IVSC to be more responsive to those countries that are attempting to meet these standards. They review the documents, outline their approaches and ask for approval which is not forthcoming. Communication from IVSC has been abysmally low. Compounding questions that surround IVSC is the fact that RICS now is taking a substantial role in both Russia and attempting to do so in Ukraine. My belief is that they are not mutually exclusive. One can meet International Valuers Standards and still be a member of RICS. Much like in the United States, you can hold a national recognized license and still be an MAI. I have encouraged Koval and the UTO to embrace RICS and work together to increase all standards in the marketplace.

As to the two projects remaining, the data collection project is in place. The Business Plan has been written, a round of assessment has been done, a University has been recruited to help sanitize the data and 60 brokers have agreed to supply actual hard information about what the pricing is in the market. Efforts still have to be made to contact banks to get their basic information and to help underwrite the cost of this effort.

From the very beginning two years ago, few people were willing to talk about the MLS. Now it is a common topic in most of the corridors of the Association. There are 8 organizations that pretend to be MLS's but are really data gathering and aggregation rather than the real requirements of an MLS which is an agreement to cooperate with other brokers and to share commissions. I believe that a demonstration project will be

put together and will be done by Arthur Ohanesyan and Oleg Ochton along with the President Andrey Shulga. In the long-run, that will give much more information for the data collection and give confidence of the lenders of the values that they are looking at when making mortgages.

What remains to be done:

- 1) There needs to be continued efforts to make the marketplace more transparent. That includes a data collection program that will characterize the real value of property. Assisting in that effort should be a legislative advocacy program to reduce the taxes on transfer. That is the major impediment for people both signing exclusive listings and/or giving true values at the point of sale.
- 2) There needs to be continued financial and technical assistance made available to the Ukrainian Realtors Association and others that are attempting to put together multiple listing services. Once these are in place, data will be much more readily available and accurate. It will allow banks again to understand the collateral that they are looking when making loans.
- 3) Attention must be focused on the licensing law which continually comes before the legislature. An appropriate one will help the market; an inappropriate one will cause disruption and be deleterious to both the industry and the home buyer and seller.

ATTACHMENT 4

CABINET OF MINISTERS OF UKRAINE

DECREE

Dated July 17, 2009 # 865

The city of Kyiv

On Introducing Changes to the Procedure for Effecting Borrowings to Local Budgets

The Cabinet of Ministers hereby **resolves**:

To introduce the attached changes to the Procedure for Effecting Borrowings to Local Budgets approved by the Decree of the Cabinet of Ministers of Ukraine dated February 24, 2003 # 207 (Official Herald of Ukraine, 2003, # 9, p. 377; 2006, # 45, p. 3006).

Prime Minister of Ukraine

YU. TYMOSHENKO

Ind. 34

APPROVED

by the Decree of the Cabinet of Ministers
of Ukraine

dated July 17, 2009 # 865

**CHANGES
to the Procedure for Effecting Borrowings to Local Budgets**

1. To supplement paragraph 3 with the following passage:

"In case of open (public) placement of municipal bonds at the stock exchange, they can be sold below par."

2. In paragraph 6:

In sub-paragraph 3 to change "copy of report" and "for the year preceding the year" with "copies of reports" and "for three years preceding the year";

In sub-paragraph 6 to delete the words “; information on the borrower’s credit rating – in case of effecting borrowing by way of entering into agreements on obtaining of loans, credits, credit lines in the financial institutions”

3. To introduce paragraph 7 in the following wording:

“7. The Ministry of Finance during 20 working days upon receiving the relevant information and documents specified in paragraph 6 hereof shall consider them and check whether the draft resolution on effecting borrowings or restructuring of debt liabilities or effecting any other transaction is in compliance with the budget legislation requirements.

If such debt liabilities are denominated in the foreign currency, we shall apply the official exchange rate of hryvnya against the foreign currency set by the National Bank of Ukraine as of the last working day preceding the date of the written notification sent pursuant to paragraph 6 hereof.

If the interest rate on such borrowings is fluctuating, we shall use the variable indicator of the fluctuating rate as of the last working day preceding the date of the written notification sent pursuant to paragraph 6 hereof.

Based on the consideration and examinations, special report on compliance or non-compliance of the above draft resolution with the requirements established by the budget legislation shall be drafted and submitted to the relevant authorities.

The conclusion on non-compliance of the draft resolution with the requirements established by the budget legislation shall be provided given one of the following reasons:

Non-compliance of the information and documents submitted pursuant to paragraph 6 hereof with the requirements established by the budget legislation and this Procedure. In case the submitted information and documents do not comply with the requirements of other special legislation, it shall be mentioned separately in the conclusion.

Expenditures on the local debt servicing shall not exceed 10% of the expenditures of the relevant local budget’s general fund based on the local budget fulfillment report for the year preceding the year of making a decision to borrow or restructure debt liabilities or effect other transactions;

The amount of local debt payments which shall be due any year during the whole redemption period exceeds the amount of the average annual receipts to the development budget during three last years preceding the year of decision-making net of the funds generated from borrowings.

In order to calculate the given expenditures on the local debt servicing and the amount of repayment, we shall take into account 25% of the servicing expenditures and payments to redeem the local debt related to issuing of loan guarantees, credits and credit lines by the international financial institutions.”

4. To supplement the Procedure with the following paragraph 7¹:

"7¹. The Ministry of Finance shall not check the compliance of the draft resolution of the Verkhovna Rada of the Autonomous Republic of Crimea or municipal council on borrowing or restructuring of debt liabilities or effecting other transaction with the requirements set forth in the budget legislation, if the draft resolution complies with the following requirements:

The amount of borrowing to the local budget does not exceed 25% of the average annual receipts to the development budget during three last years preceding the year of decision-making net of the funds generated from borrowings.

The overall amount of borrowing as of the day of effecting the borrowing stipulated by the draft resolution does not exceed 75% of the average annual receipts to the development budget during three last years preceding the year of decision-making net of the funds generated from borrowings.

The amount of expenditures on the local debt servicing does not exceed 5% of the overall local budget expenditures for the year preceding the year of making a decision to borrow or restructure debt liabilities or effect other transactions.

In case of full compliance with the above requirements, the draft resolution of the Verkhovna Rada of the Autonomous Republic of Crimea or municipal council on borrowing or restructuring of debt liabilities or effecting other transaction shall be sent to the Ministry of Finance within three days.

If during 30 working days upon receipt of the above draft resolution, the Ministry of Finance has not sent written justified objection, the draft resolution shall be considered in compliance with the requirements of the budget legislation.

Otherwise, the Verkhovna Rada of the Autonomous Republic of Crimea or municipal council shall submit the draft of the relevant resolution for examination pursuant to paragraph 6 hereof.".

5. To supplement paragraph 9 after “shall be sent” with “by the borrower”.

ATTACHMENT 5



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES. MORTGAGE. MUNICIPAL FINANCE. LEASING. CREDIT BUREAU. CREDIT RATING.

8 July 2009

PRESS RELEASE

Leasing Manual: the first attempt at a comprehensive study of leasing in the current economic circumstances in Ukraine

KYIV – Over the recent years, leasing in Ukraine has become a powerful financial mechanism of accessing fixed assets in the real sector of the economy. However, the lack of a clear leasing concept in legislation, in some cases, a discriminatory system of taxing leasing transactions, the insufficiency and, sometimes, inaccessibility of leasing project funding sources, and often an unsatisfied demand for qualified personnel, are to some extent hindering the development of leasing in the country. With regard to these aspects, 8 July, the NGO “Certified Lease Specialist Union” and USAID-funded Access to Credit Initiative (ATCI) Project have presented the **Leasing Manual** intended not just to help solve the existing problems of industry development but to become the first attempt at a comprehensive study of leasing in the modern macro- and microeconomic situation of Ukraine. The presentation was attended by top managers and leading certified specialists of leasing companies, representatives from the State Commission on Regulating Financial Services Markets, higher educational establishments, and the US Agency for International Development (USAID).

The Leasing Manual provides a comprehensive study of leasing constituents allowing the reader to form a thorough understanding of the leasing business, covering such as: legislation, tax and regular accounting, external factors impacting the industry, strategic planning and marketing, principles of building an effective organization structure, streamlining leasing projects funding schemes, pricing and structuring leasing operations, interacting with business partners and clients. The authors’ team includes leasing practitioners – managers and leading certified specialists of leasing companies as well as other industry specialists.

Practical experience of the authors would be helpful to leasing companies’ specialists, students majoring in economic specialties at country’s higher educational establishments who plan on working in the leasing business, employees of banks and insurance companies, and manufacturers, supplies and vendors of fixed assets. The authors also expect changing attitudes towards leasing on the part of public officials, those who directly participate in legislation making and who will later encourage the development of leasing equally with other fields of investment activity.

The NGO “Certified Lease Specialist Union” has been founded in 2007 as part of the activities of the USAID’s ATCI Project (2004-2009). Presently, the NGO unites 57 certified lease professionals. By June 2009, a total of 104 lease specialists received Certificates under the Certified Lease Specialist program (operated in Ukraine since 2005).

ATTACHMENT 6

#	Name of an educational establishment	Number
<i>Kyiv</i>		
1	Kyiv National Trade and Economic University	50
2	Kyiv National Economic University	50
<i>Kharkiv</i>		
1	Kharkiv National Economic University	41
2	Kharkiv National Technical University	51
<i>Sumy</i>		
1	Ukrainian Academy of Banking at NBU	25
<i>Donetsk</i>		
1	Donetsk National Technical University	40
<i>Lviv</i>		
1	Institute of Economy and Management at University "Lviv Polytechnika"	3
2	Institute of Post-Graduate Education at University "Lviv Polytechnika"	2
3	Lviv State Financial Academy	2
4	Lviv Commercial Academy	3
5	Lviv Institute of Banking at NBU University of Banking	2
		2
		2
6	Lviv State Agrarian University	2

7	Lviv Institute of Economics and Tourism	2
8	Lviv Institute of Management	2
9	Lviv Institute of Entrepreneurship and Prospective Technologies	4
10	Lviv National University	2
11	Lviv University of Business and Law	2
12	Inter-Regional Academy of Personnel Management	3
13	National Forestry University	2

Odesa

1	Odesa State Economic University	30
2	Odesa National University	20
3	Odesa subsidiary of the European University	20
4	Odesa National Marine University	
5	Odesa National Polytechnic University	20

Mykolaiv

1	International University of Human Development “Ukraine”	20
---	--	----

Lutsk

1	Volyn Institute of Economics and Management	3
2	Volyn National University	3

3	Inter-Regional Academy of Personnel Management	2
4	Kovel Industrial and Economic College of Lutsk State Technical University	1
5	Institute of Business Management	2
<i>Ternopil</i>		
1	Ternopil State Technical University	3
2	Berezhany Agro-Technical Institute of the National Agrarian University	3
3	Institute of Economics and Entrepreneurship	2
4	Ternopil subsidiary of the European University	1
5	Ternopil Commercial Institute	2
6	Ternopil National Economic University	1
<i>Uzhgorod</i>		
1	Zakarpattia State University	2
2	Mukachevo Cooperative Financial and Commercial College	1
3	Uzhgorod National University	4
4	A. Voloshyn Carpathian Institute	3
<i>Ivano-Frankivsk</i>		
1	Ivano-Frankivsk State College of Technologies and Business	2
2	Prykarpattia National University	3
3	Ivano-Frankivsk Institute of Management at Ternopil National Economic University	2

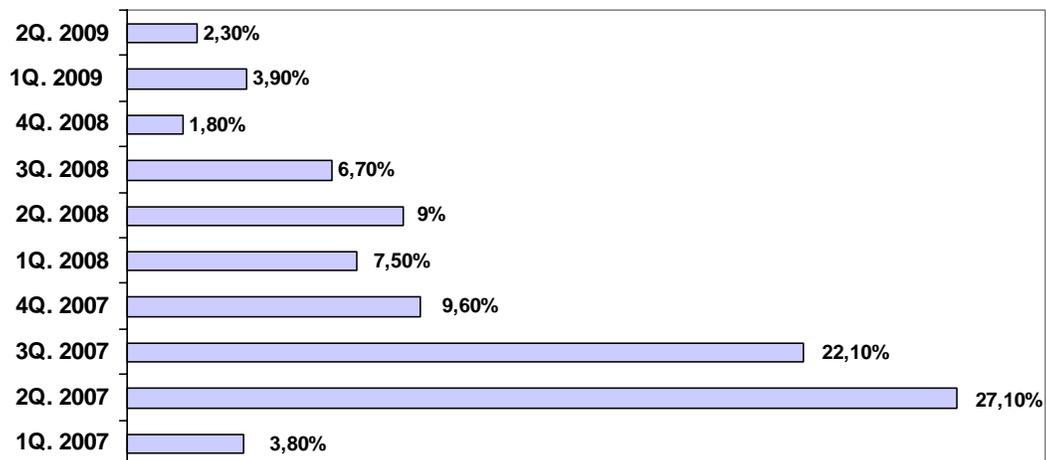
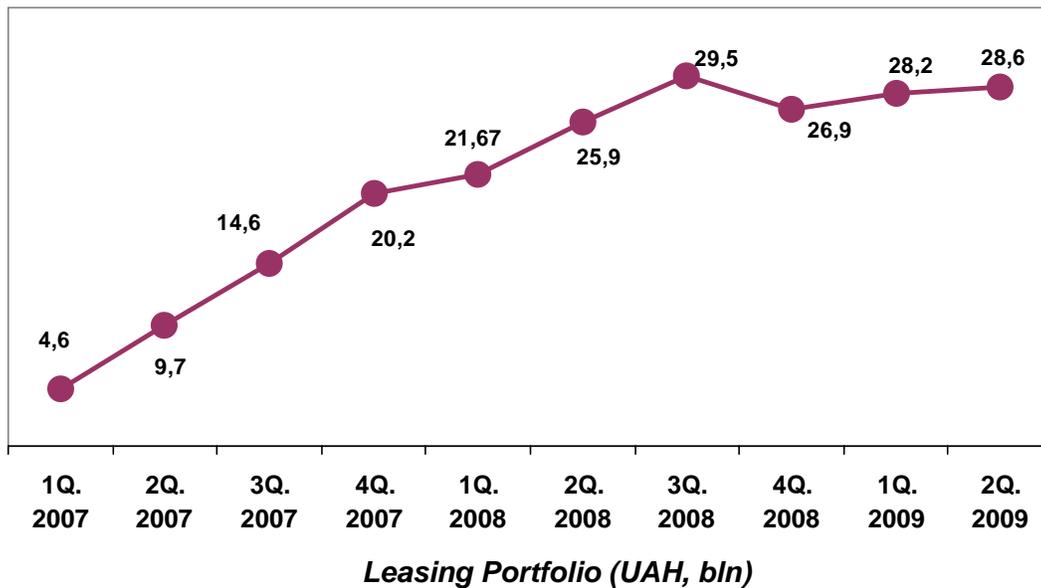
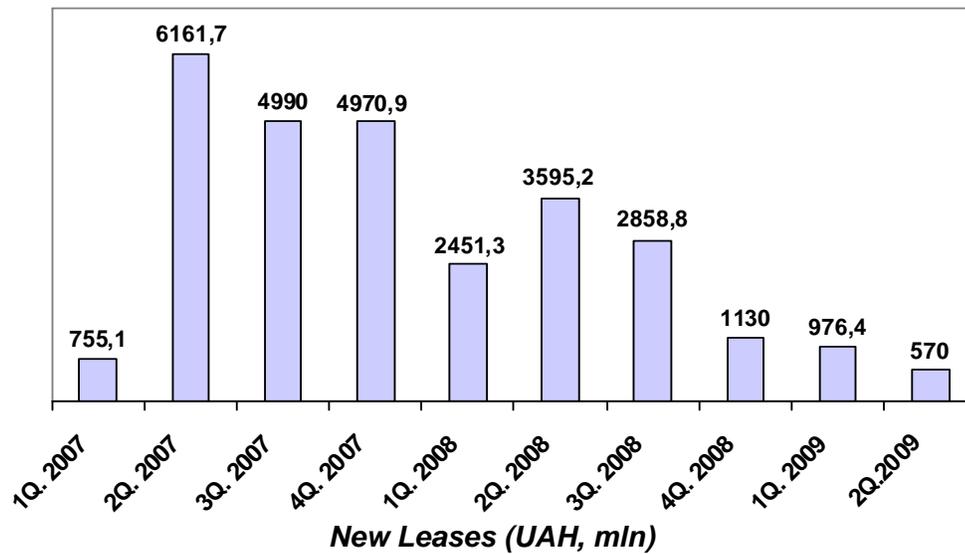
<i>Chernivtsi</i>		
1	Western-Ukrainian Economy and Law University	3
2	Bukovyna State Financial and Economic Institute	2
3	Economy and Law Institute	
4	Chernivtsi State Commercial College	2
5	Chernivtsi Trade and Economic Institute	1
<i>Rivne</i>		
1	International Economic and Humanitarian University	1
2	Rivne Institute of Slavic Sciences at Kyiv Slavic University	3
3	Rivne National University of Water Management and Environmental Management	3
4	Rivne State Agrarian College	1
<i>Ostrog</i>		
1	National University "Ostrog Academy "	3

Total

461

ATTACHMENT 7

Leasing Market Dynamics as of the 2nd Quarter of 2009



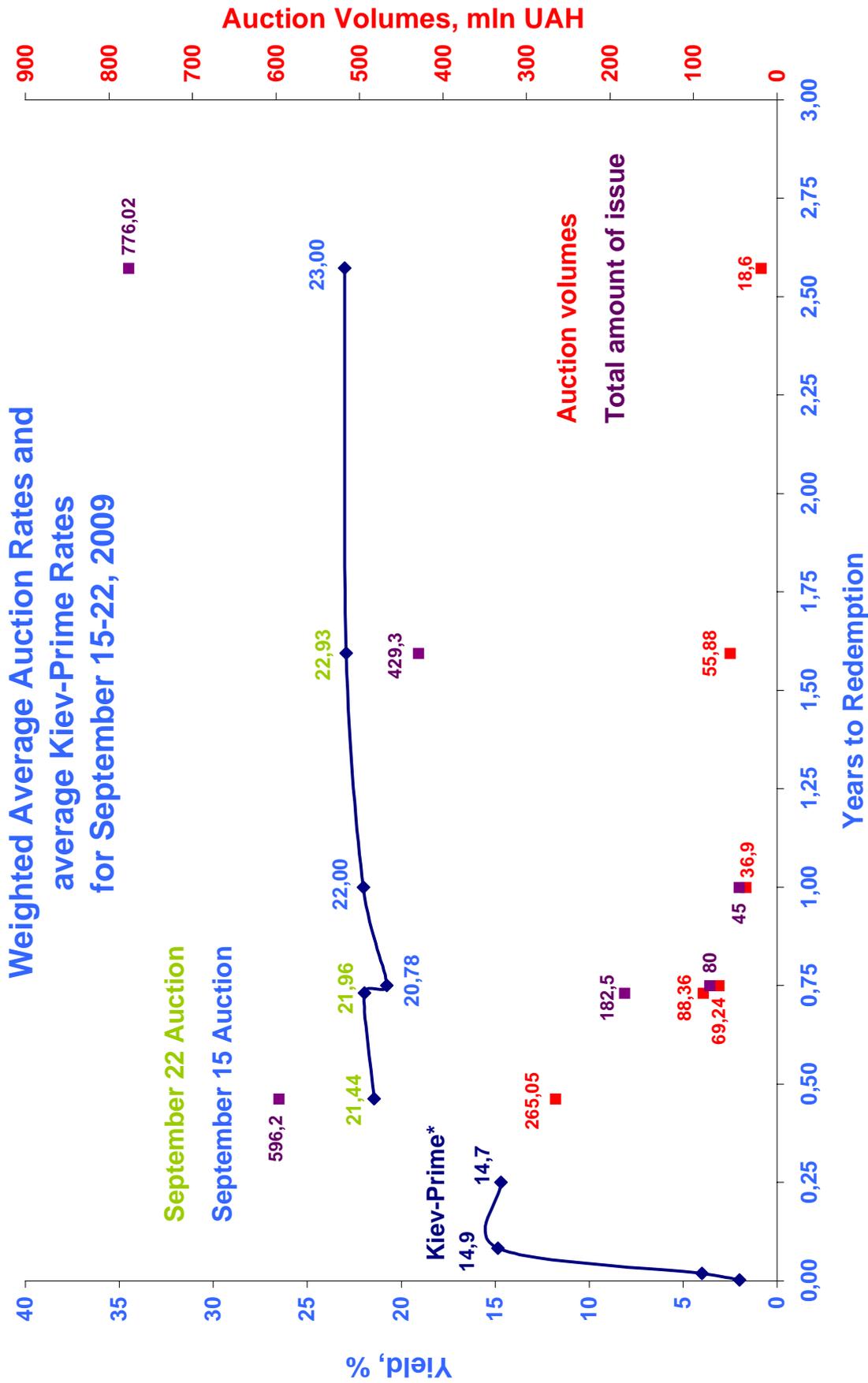
Leasing Penetration Rate

ATTACHMENT 8

Schedule of domestic government bond placements in August-December, 2009

Calendar month	Types of domestic government bonds	Placement days				
		1 st Monday	2 nd Monday	3 rd Monday	4 th Monday	5 th Monday
		Maturities of domestic government bonds				
August	Short-term	9 and 12 months	6 and 9 months	6 and 12 months	-	9 and 12 months
	Middle-term	3 years	2 years	3 years	-	2 years
September	Short-term	6 and 12 months	9 and 12 months	6 and 9 months	9 and 12 months	-
	Middle-term	2 years	3 years	2 years	3 years	-
October	Short-term	3 and 12 months	6 and 9 months	3 and 12 months	6 and 9 months	-
	Middle-term	3 years	2 years	3 years	2 years	-
November	Short-term	3 and 12 months	6 and 9 months	3 and 12 months	6 and 9 months	3 and 12 months
	Middle-term	3 years	2 years	3 years	2 years	3 years
December	Short-term	6 and 9 months	3 and 12 months	6 and 9 months	3 and 12 months	-
	Middle-term	2 years	3 years	2 years	3 years	-

ATTACHMENT 9



*KievPrime is an independent reference rate calculated daily by Reuters based on offered inter-bank deposit rates in UAH as quoted by leading participants in the Ukrainian money market (Calyon Bank Ukraine, Citibank Ukraine, Erste Bank Ukraine, ING Bank Ukraine, Raiffeisen Bank Aval, Ukreximbank, UkrSibbank, and Ukrsofsbank).

Code	A Date	Redemption	Maturity	Rate	Volumes	Total issue
UA40000600 73 reopening	22.09.2009	10.03.2010	0,46	21,44	265 046 274,00	596,2
UA40000602 71 reopening	22.09.2009	16.06.2010	0,73	21,96	88 357 279,00	182,5
UA40000602 71	15.09.2009	16.06.2010	0,75	20,78	69 242 250,00	80
UA40000602 89	15.09.2009	15.09.2010	1,00	22,00	36 903 600,00	45
UA40000544 56 reopening	22.09.2009	27.04.2011	1,59	22,93	55 879 424,00	429,3
UA40000539 12	15.09.2009	11.04.2012	2,57	23,00	18 591 600,00	776,02

 KievPrime e O/N				0,003	2,0	1,0
 KievPrime e 1W				0,02	4,0	7,0
 KievPrime e 1M				0,08	14,9	30,5
 KievPrime e 3M				0,250	14,7	91,3

Index group description

KievPrime is an independent reference rate calculated daily by Reuters based on ordered inter-bank deposit rates in UAH as quoted by leading participants in the Ukrainian money market. The eight local commercial banks contributing reference rates were selected on the basis of their reputation, credit standing, and expertise and activity in local capital markets. These are: Calyon Bank Ukraine, Citibank Ukraine, Erste Bank Ukraine, ING Bank Ukraine, Raiffeisen Bank Aval, Ukreximbank, UkrSibbank, and UkrSotsbank. KievPrime is calculated for overnight, one week, 1-, 2- and 3-month tenors, which are provided by the contributor banks daily at 12pm.

ATTACHMENT 10



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES. MORTGAGE. MUNICIPAL FINANCE. LEASING. CREDIT BUREAU. CREDIT RATING.

Управление рисками ипотечного портфеля

ATCI

Steve Moody
Kiev, September 2009

1

Цели управления рисками

- ✓ Определять риск
- ✓ Анализировать и оценить риск
- ✓ Увеличивать, уменьшать, передавать или устранять риск

2

Риски ипотечного кредитования

- ✓ Кредитный риск заемщика
- ✓ Риск объекта залога
- ✓ Жизненный риск заемщика
- ✓ Риск титула

СТРАХОВАНИЕ

3

Риски ипотечного кредитования

Кредитный риск заемщика

Строгая документация

Credit scoring

DTI < 28%

PITI < 36%

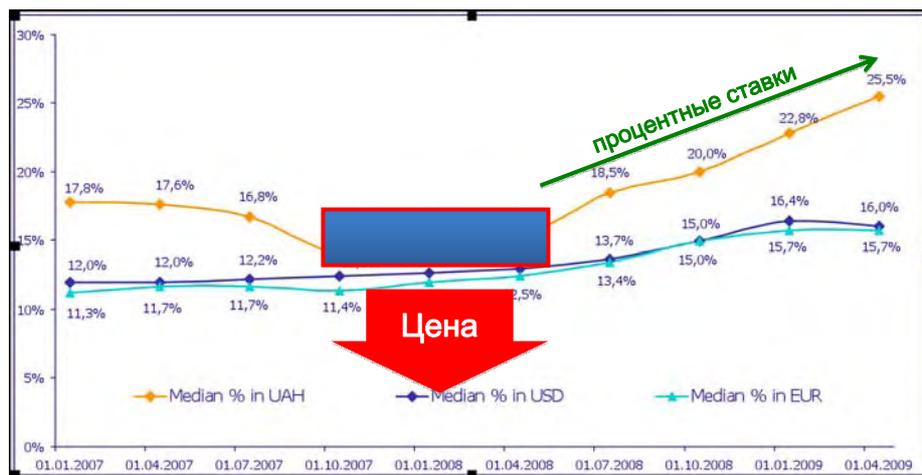
4

Риски ипотечного портфеля

✓ Процентный риск

5

плавающие или фиксированные ставки?



Source UNIA

При снижении ставок, стоимость портфеля поднимается.
При повышении ставок, стоимость портфеля падает.

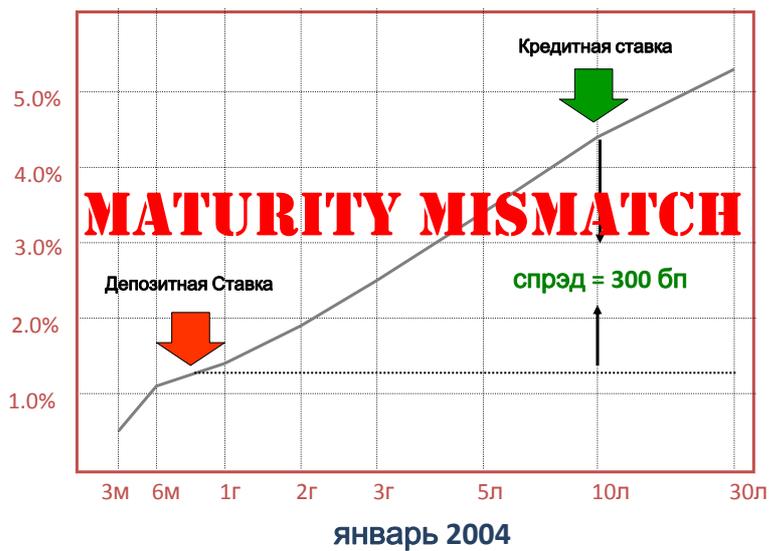
6

Риски ипотечного портфеля

- ✓ Процентный риск
- ✓ Срочный риск

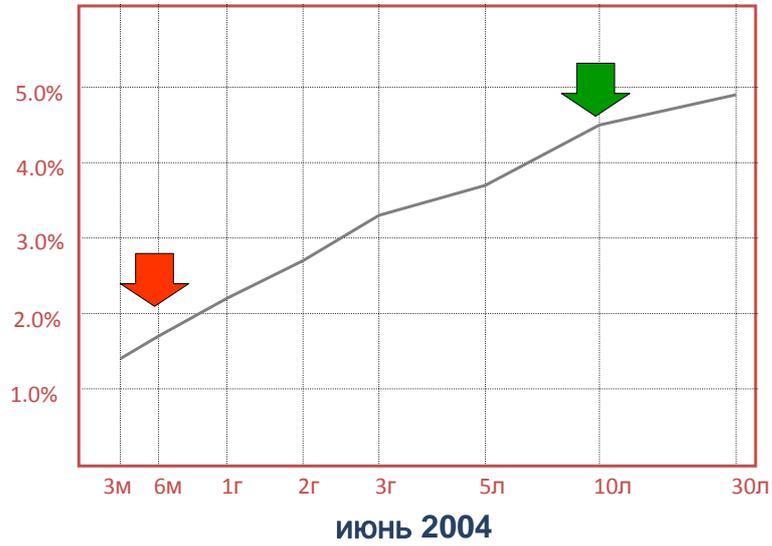
7

кривая доходности госбумаг США



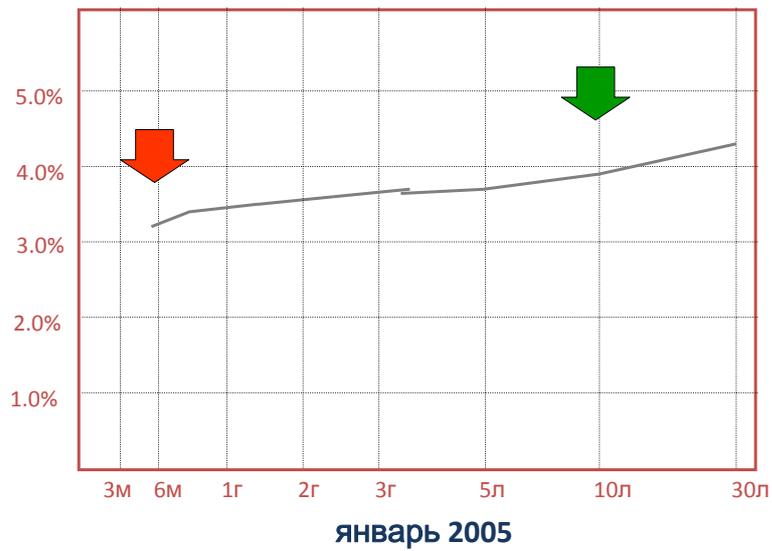
8

кривая доходности госбумаг США



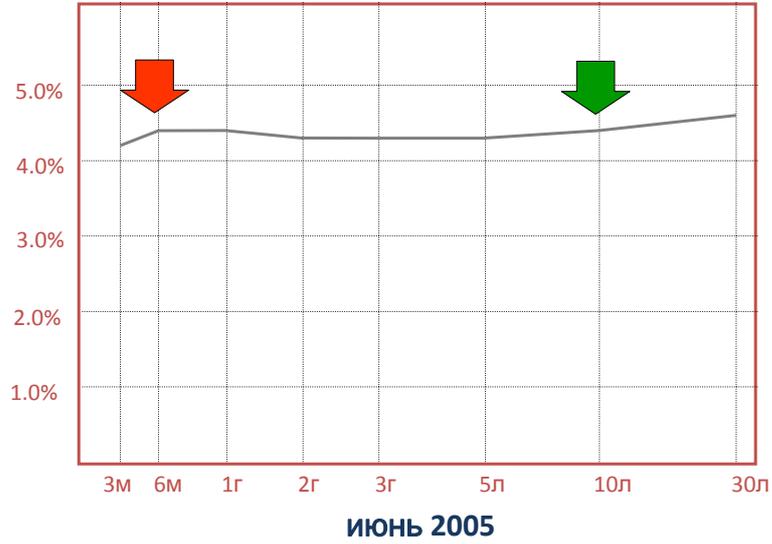
9

кривая доходности госбумаг США



10

кривая доходности госбумаг США



11

кривая доходности госбумаг США



12

кривая доходности госбумаг США



13

Риски ипотечного портфеля

- ✓ Процентный риск
- ✓ Срочный риск
- Риск досрочного погашения
- Риск просрочки

14





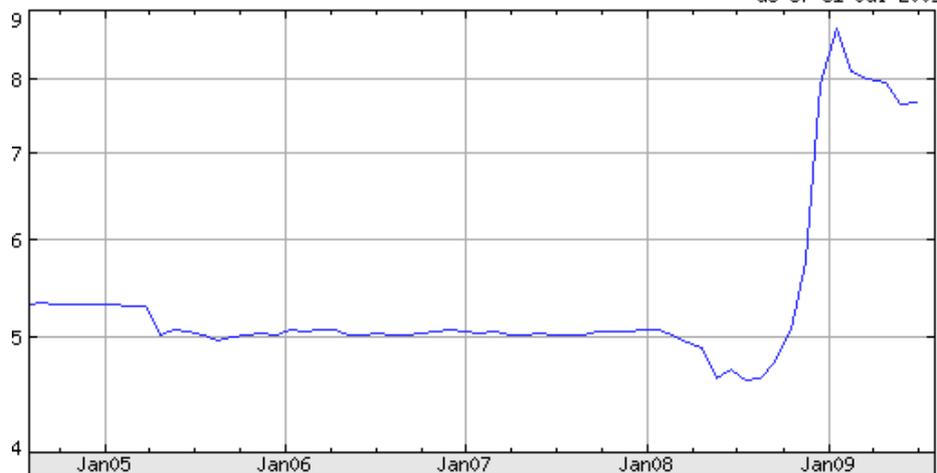
Риски ипотечного портфеля

- ✓ Процентный риск
- ✓ Срочный риск
- Риск досрочного погашения
- Риск просрочки
- ✓ Риск рыночных цен на жилье
- ✓ Валютный риск

19

UAH/USD

as of 31-Jul-2009



Copyright 2009 Yahoo! Inc.

<http://finance.yahoo.com/>

ДЕВАЛЬВАЦИЯ



Управление рисками

- ✓ Систематическое
- ✓ Периодическое

22

Анализ портфеля используя средневзвешенные показатели

$$\bar{x} = \frac{\sum_{i=1}^n w_i x_i}{\sum_{i=1}^n w_i},$$

23

средневзвешенные показатели

Первоначальная сумма кредита	Удельный вес	Процентная ставка	средневзвешенный процент	Срок	средневзвешенный срок
70000	0.07955	0.13	0.010341027	240	19.09113
42500	0.04830	0.15	0.007244401	180	8.69328
25000	0.02841	0.14	0.003977318	200	5.68188
110000	0.12500	0.13	0.016250185	225	28.12532
65000	0.07386	0.18	0.013295606	250	18.46612
63500	0.07216	0.13	0.009380788	250	18.03998
42500	0.04830	0.15	0.007244401	250	12.07400
25000	0.02841	0.14	0.003977318	120	3.40913
60000	0.06818	0.13	0.008863737	212	14.45471
67500	0.07671	0.18	0.013806975	250	19.17635
71250	0.08097	0.13	0.010525688	215	17.40787
44740	0.05084	0.15	0.007626223	250	12.71037
24900	0.02830	0.14	0.003961409	255	7.21542
99000	0.11250	0.13	0.014625166	211	23.73777
69100	0.07852	0.18	0.014134252	250	19.63090
879990.00	1.00000		0.145254492		227.91424

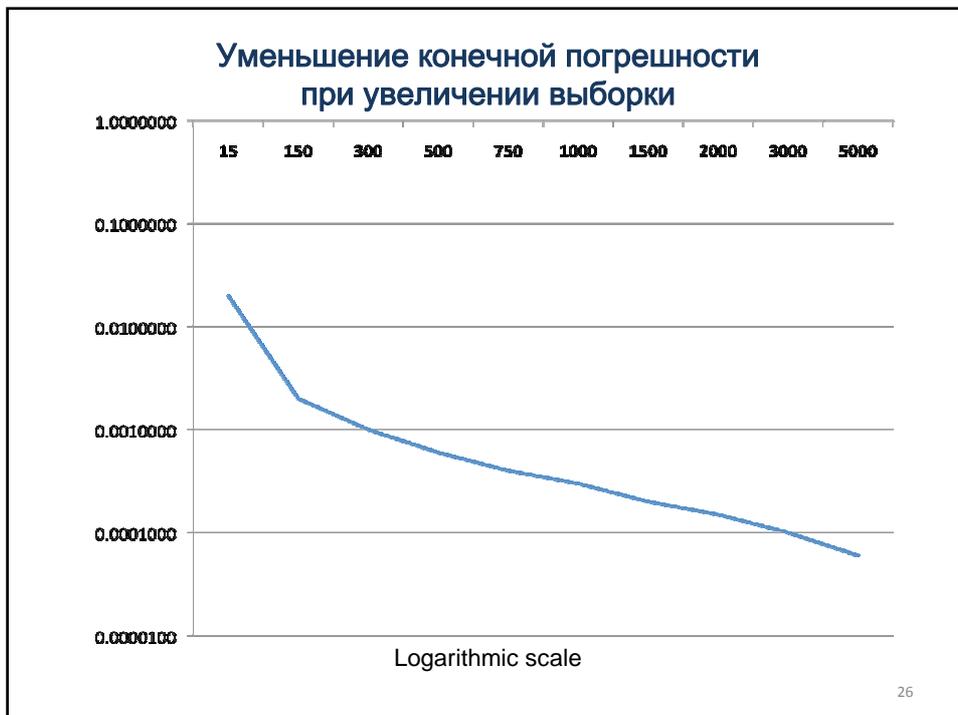
**одного ипотечного кредита на сумму 879990 UAH на 227.9123 месяцев
под 14.5254% годовых**

24

Первоначальная сумма кредита	Процентная ставка	Срок	Проценты	Основной долг
70000	0.13	240	758.3333333	291.66667
42500	0.15	180	531.25	236.11111
25000	0.14	200	291.6666667	125.00000
110000	0.13	225	1191.666667	488.88889
65000	0.18	250	975	260.00000
63500	0.13	250	687.9166667	254.00000
42500	0.15	250	531.25	170.00000
25000	0.14	120	291.6666667	208.33333
60000	0.13	212	650	283.01887
67500	0.18	250	1012.5	270.00000
71250	0.13	215	771.875	331.39535
44740	0.15	250	559.25	178.96000
24900	0.14	255	290.5	97.64706
99000	0.13	211	1072.5	469.19431
69100	0.18	250	1036.5	276.40000
879990.00			10651.875	3940.61559

Проценты: $879990 \times (0.145254492 / 12) = 10651.875$
Основной долг: $879990 / 227.91424 = 3861.0576$ (0.97981)

25



26

Первоначальная сумма кредита	Удельный вес	Процентная ставка	средневзвешенный процент	Срок	средневзвешенный срок
70000	0.07955	0.13	0.010341027	240	19.09113
42500	0.04830	0.15	0.007244401	180	8.69328
25000	0.02841	0.14	0.003977318	200	5.68188
110000	0.12500	0.13	0.016250185	225	28.12532
65000	0.07386	0.18	0.013295606	250	18.46612
63500	0.07216	0.13	0.009380788	250	18.03998
42500	0.04830	0.15	0.007244401	250	12.07400
25000	0.02841	0.14	0.003977318	120	3.40913
60000	0.06818	0.13	0.008863737	212	14.45471
67500	0.07671	0.18	0.013806975	250	19.17635
71250	0.08097	0.13	0.010525688	215	17.40787
44740	0.05084	0.15	0.007626223	250	12.71037
24900	0.02830	0.14	0.003961409	255	7.21542
99000	0.11250	0.13	0.014625166	211	23.73777
69100	0.07852	0.18	0.014134252	250	19.63090
879990.00	1.00000		0.145254492		227.91424

Средневзвешенный LTV, DTI и PITI

27

Текущий LTV

Первоначальная стоимость залога	$879990 / .75 = 1173330$
Средний спад цен	30%
Текущая стоимость залога	$1173330 \times 0.70 = 821324$
Остаточный баланс	$879990 - (3940.62 \times 20) = 801177.60$
Текущий LTV	$801177.60 / 821324 = 97.5\%$

Book Year

28

Плановые выплаты процентов и амортизация основного долга

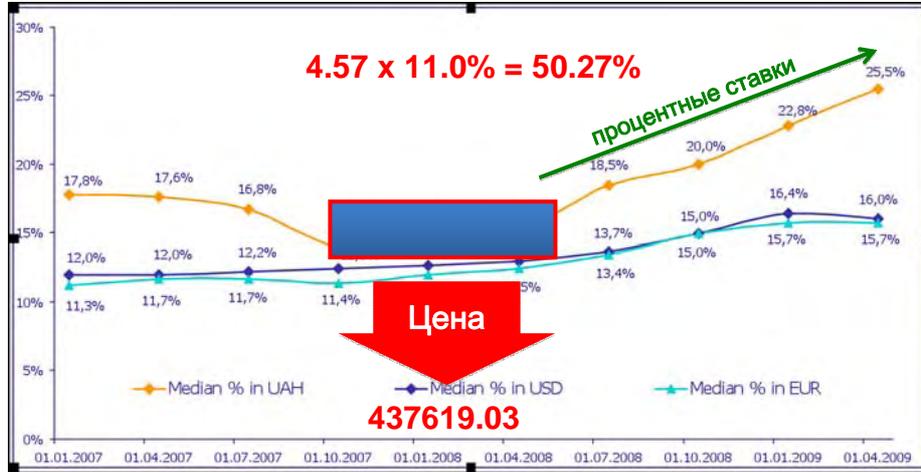
месяц	остаточный баланс	основной долг	проценты
1	879990.00	3940.62	10651.88
2	876049.38	3940.62	10604.18
3	872108.77	3940.62	10556.48
4	868168.15	3940.62	10508.78
5	864227.54	3940.62	10461.08
6	860286.92	3940.62	10413.38
7	856346.31	3940.62	10365.68
8	852405.69	3940.62	10317.98
9	848465.08	3940.62	10270.28
10	844524.46	3940.62	10222.58
11	840583.84	3940.62	10174.88
12	836643.23	3940.62	10127.18

29

Macaulay Duration 4.57 years

месяц	остаточный баланс	основной долг	проценты	итого	DCF	MD
1	879990.00	3940.62	10651.88	14592.49	14417.97	0.01638
2	876049.38	3940.62	10604.18	14544.79	14198.97	0.03226
3	872108.77	3940.62	10556.48	14497.09	13983.14	0.04766
4	868168.15	3940.62	10508.78	14449.39	13770.45	0.06258
<hr style="border-top: 1px dashed blue;"/>						
221	13054.57	3940.62	158.02	4098.64	286.97	0.07207
222	9113.95	3940.62	110.32	4050.94	280.24	0.07070
223	5173.34	3940.62	62.62	4003.24	273.62	0.06934
224	1232.72	1232.72	14.92	1247.65	84.26	0.02145
		879990	1194681.21	2074671.214	879990	54.78746

Macaulay Duration Price Function



Source UNIA

При снижении ставок, стоимость портфеля поднимается.
При повышении ставок, стоимость портфеля падает.

31

Average Monthly Prepayment

месяц	расчитанный баланс		δ	
12	836643.23	736643.23	100000	11

AMP = досрочное погашение – просрочка;
то есть, фактический денежный поток.

$$100000 / 11 = 9090.91$$

$$9090.91 / 736643.23 = 1.23\%$$

32

Duration with AMP

месяц	остаточный баланс	основной долг	проценты	AMP	итого	DCF	MD
1	879990.00	3940.62	10651.88	9090.91	23683.40	23400.15	0.02635
2	866958.47	3940.62	10494.13	9090.91	23525.66	22966.30	0.05173
3	853926.95	3940.62	10336.39	9090.91	23367.92	22539.48	0.07615
4	840895.42	3940.62	10178.65	9090.91	23210.18	22119.59	0.09964
5	827863.90	3940.62	10020.91	9090.91	23052.44	21706.51	0.12223
6	814832.37	3940.62	9863.17	9090.91	22894.70	21300.15	0.14393
7	801800.85	3940.62	9705.43	9090.91	22736.96	20900.41	0.16476
8	788769.32	3940.62	9547.69	9090.91	22579.22	20507.18	0.18476
9	775737.80	3940.62	9389.95	9090.91	22421.48	20120.36	0.20393
10	762706.27	3940.62	9232.21	9090.91	22263.73	19739.87	0.22231
11	749674.74	3940.62	9074.47	9090.91	22105.99	19365.60	0.23990
		789080.8	967139.3		1856220.	887953.9	47.0455

3.92 years
3.92 x 11 = 43.125%



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Thank you.

ATCI

ATTACHMENT 11



USAID
FROM THE AMERICAN PEOPLE

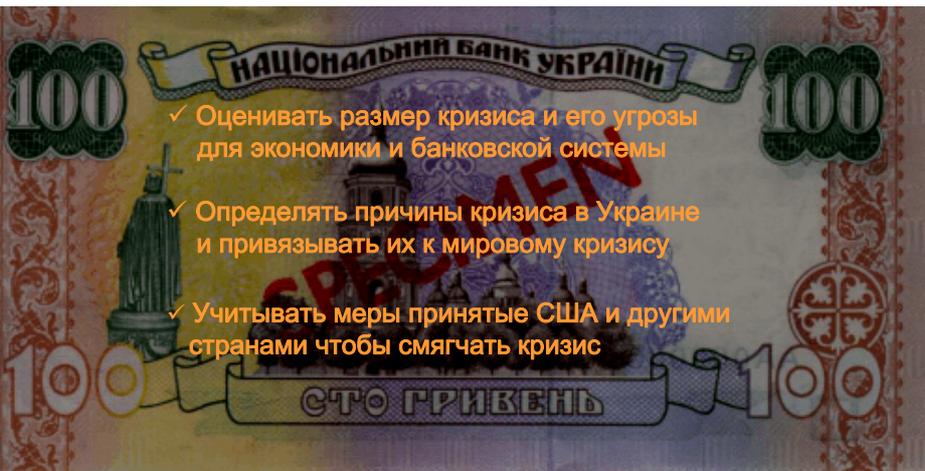
ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.



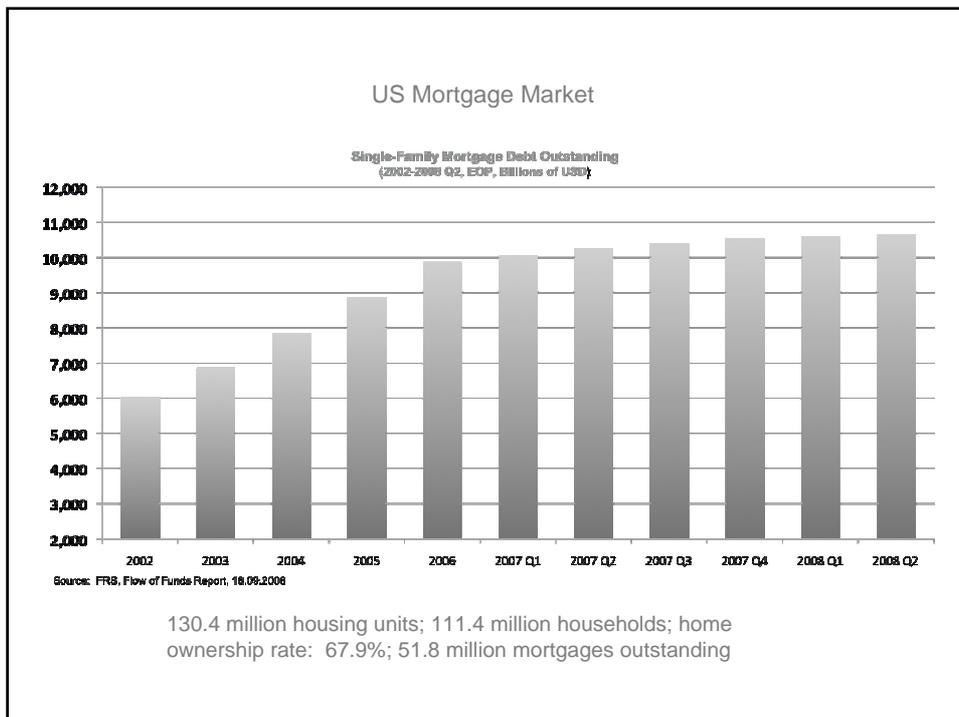
Финансовый кризис: Жилье

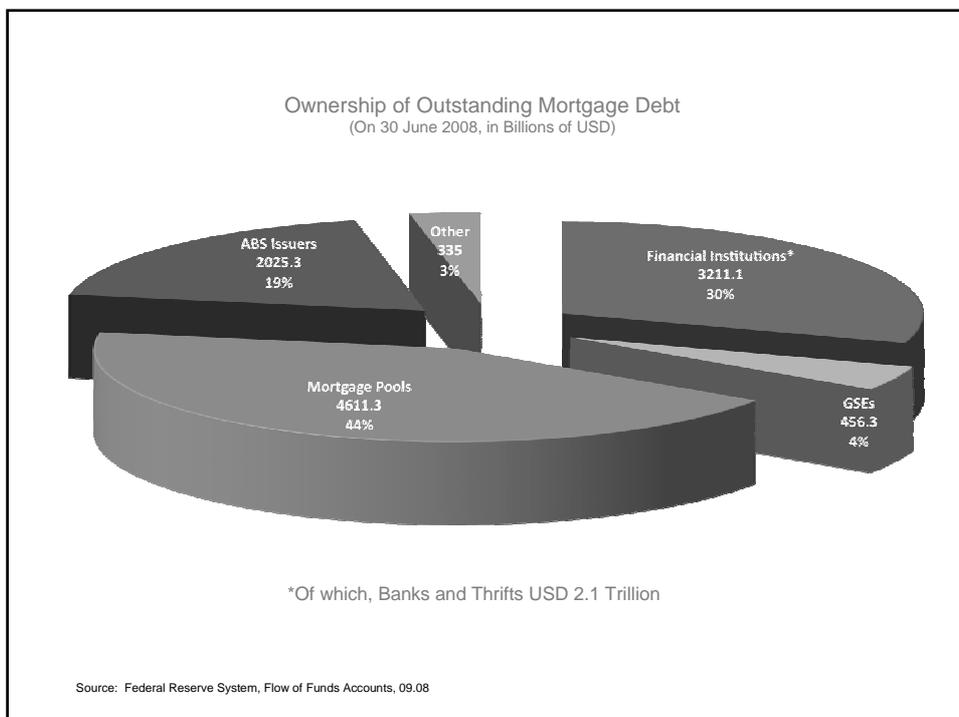
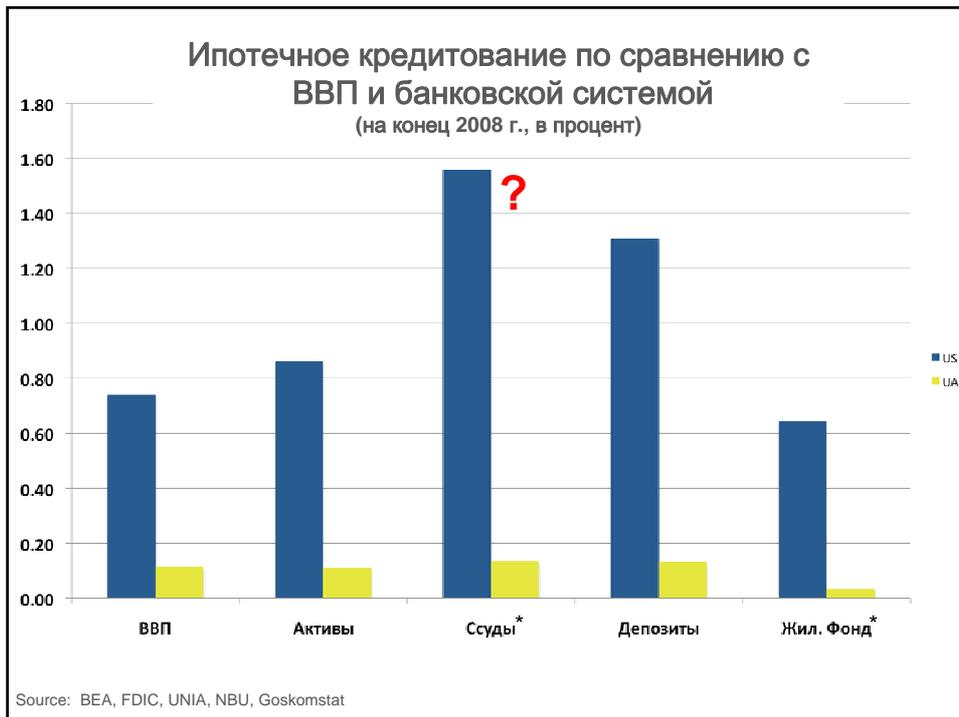
АТСІ

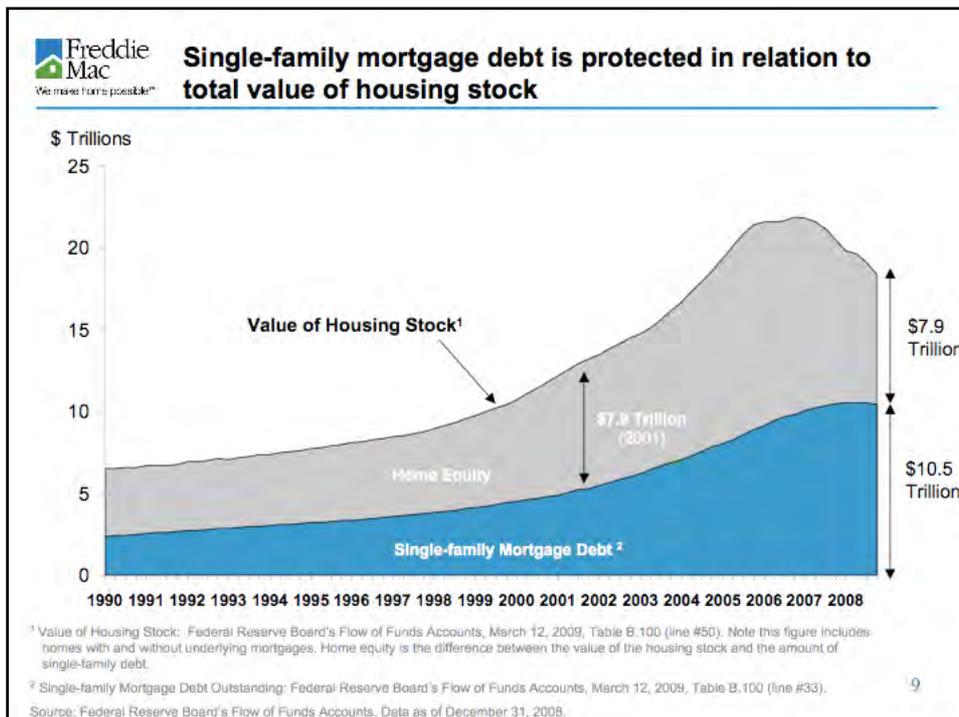
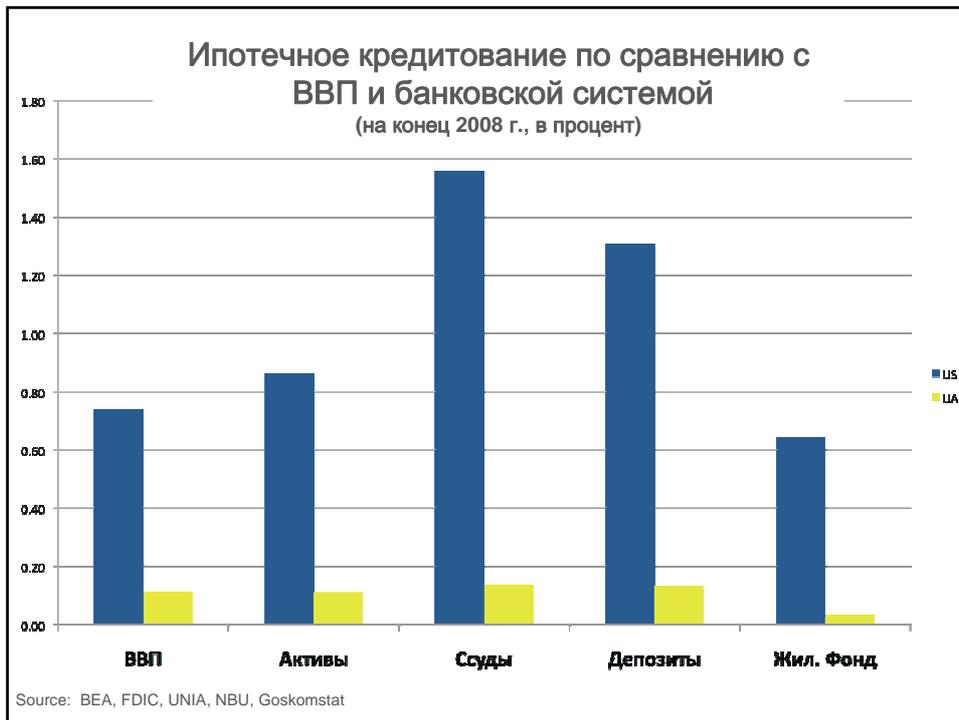
ФИНАНСОВЫЙ КРИЗИС: ЖИЛЬЕ

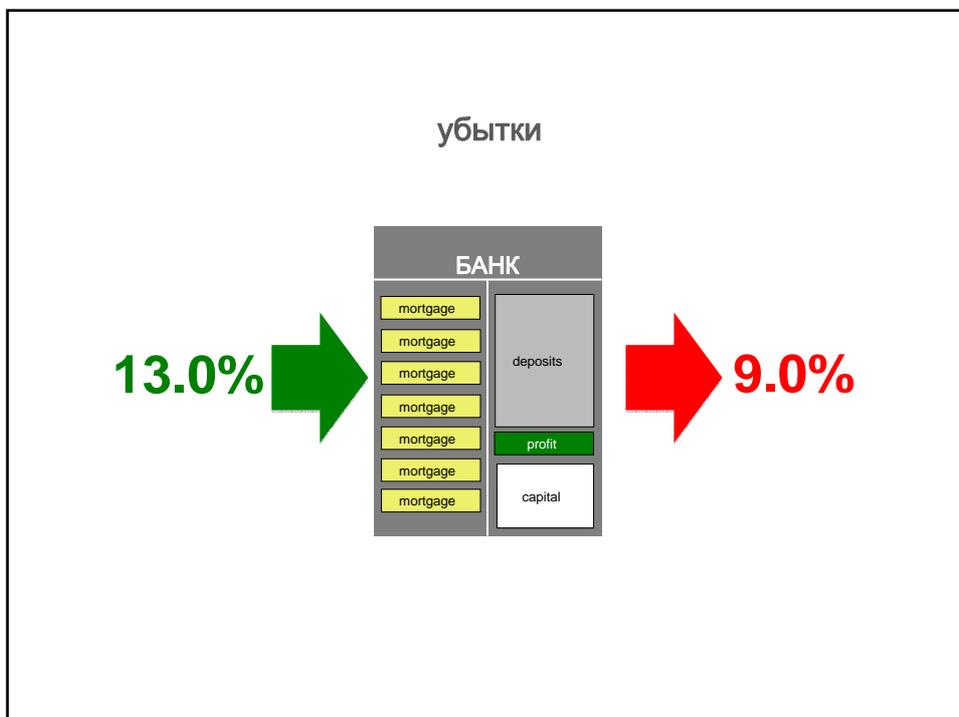
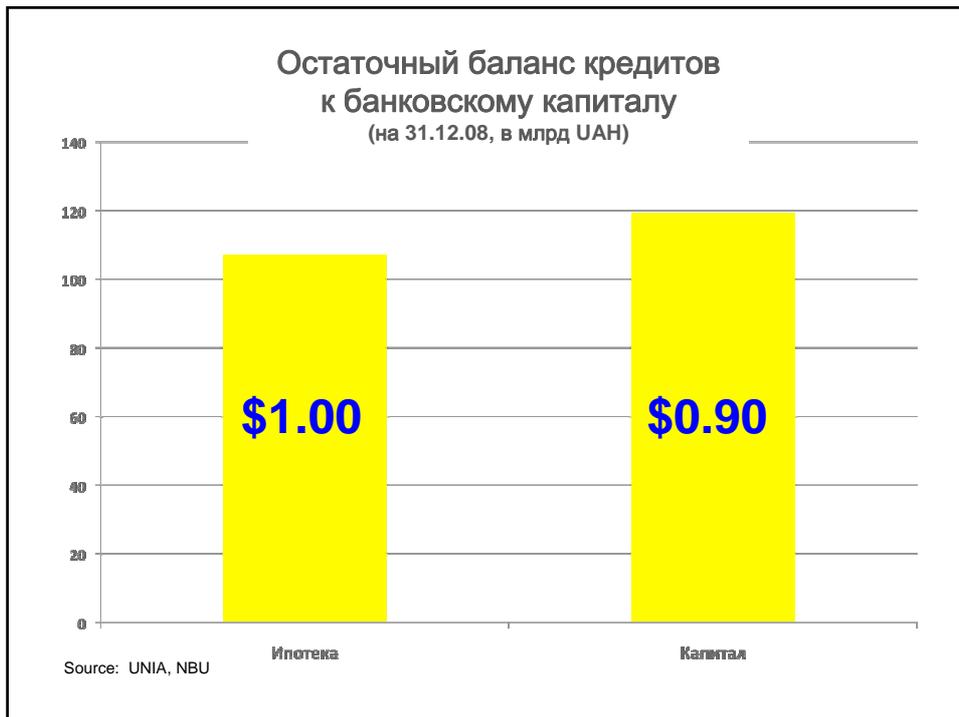


- ✓ Оценивать размер кризиса и его угрозы для экономики и банковской системы
- ✓ Определять причины кризиса в Украине и привязывать их к мировому кризису
- ✓ Учитывать меры принятые США и другими странами чтобы смягчить кризис









Два компонента убытка:

1. Текущий компонент:
просрочка

зависит от платежеспособности заемщика

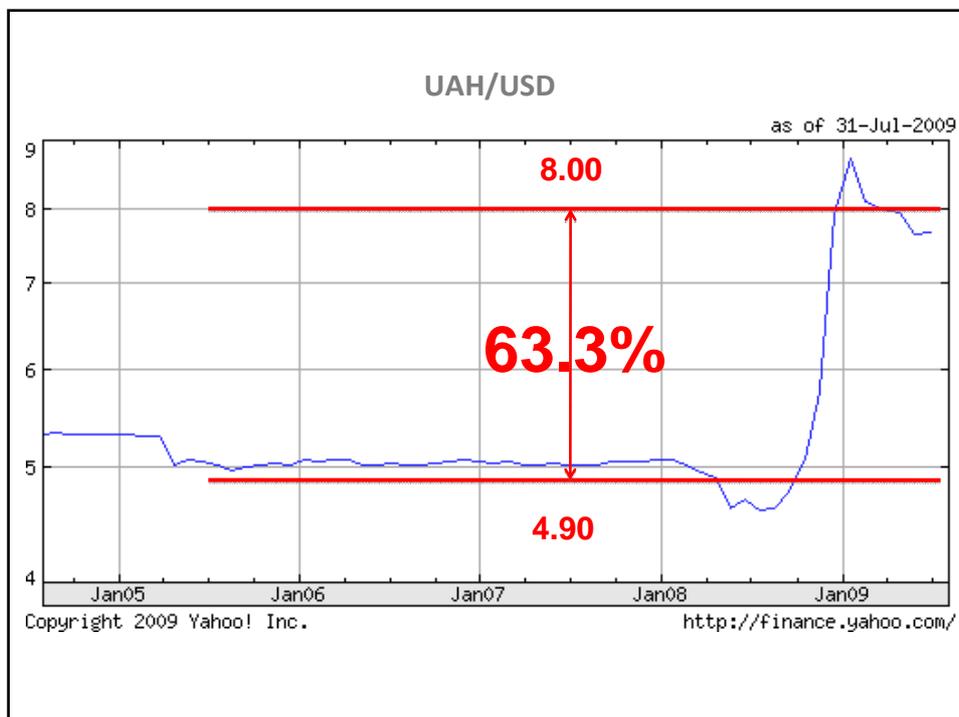
$$DTI < 30\%$$

2. Капитальный компонент:
изъятие предмета залога

зависит от цен на жилье

$$LTV < 75\%$$

может увеличивать убыток или уменьшать его



**летний кредит под 13.0%
на сумму USD 75000**

\$1100 X 4.90 = UAH 5390

5390 UAH / .30 = 17966.67 UAH

\$1100 X 8.00 = 8800 UAH

8800 / 17966.67 = .49 DTI

			плановые платы	фактические проплаты	неполученный доход	убытки
			1125.00	1020.83	0.00	
			1121.61	1018.58	0.00	
			1118.23	1016.32	0.00	
			1114.84	1014.06	0.00	
5	312.50	798.96	1111.46	1011.81	0.00	
6	312.50	795.57	1108.07	1009.55	0.00	
7	312.50	792.19	1104.69	673.75	430.94	187.19
8	312.50	788.80	1101.30	673.75	427.55	184.84
9	312.50	785.42	1097.92	673.75	424.17	182.50
10	312.50	782.03	1094.53	673.75	420.78	180.16
11	312.50	778.65	1091.15	673.75	417.40	177.81
12	312.50	775.26	1087.76	673.75	414.01	175.47
13	312.50	771.88	1084.38	673.75	410.63	173.13
14	312.50	768.49	1080.99			
15	312.50	765.10	1077.60			
16	312.50	761.72	1074.22			
17	312.50	758.33	1070.83			
18	312.50	754.95	1067.45	673.75	393.70	161.41
	5625.00	14107.03	19732.03	14176.15	4947.8	

17966.67 UAH X .30 DTI = 5390 UAH

5390 UAH / 8.00 = \$673.75

Loss Given Default

Первоначальный основной долг: 75000.00

Выплаты основного долга: 5625.00

итого: **69375.00**

убытки: **2091.56**

итого: **71466.56**

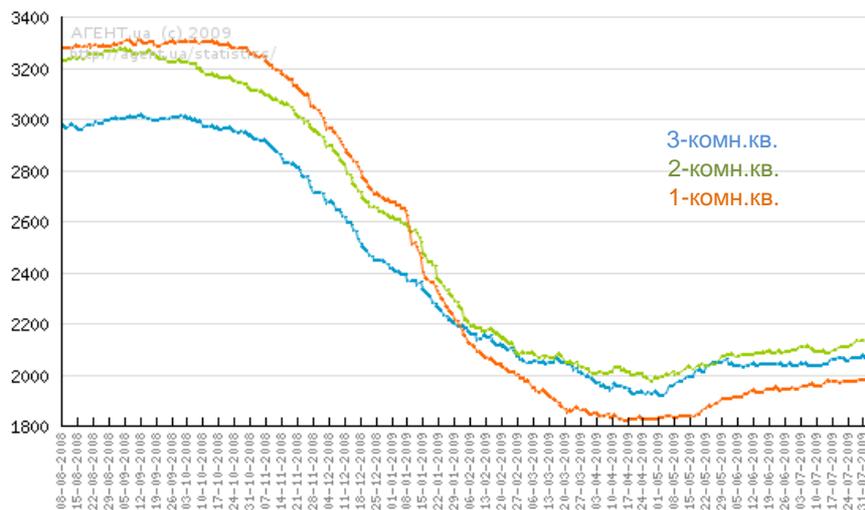
прибыль: **2856.25**

итого: **74322.81**

Цена покупки жилья: 100000.00

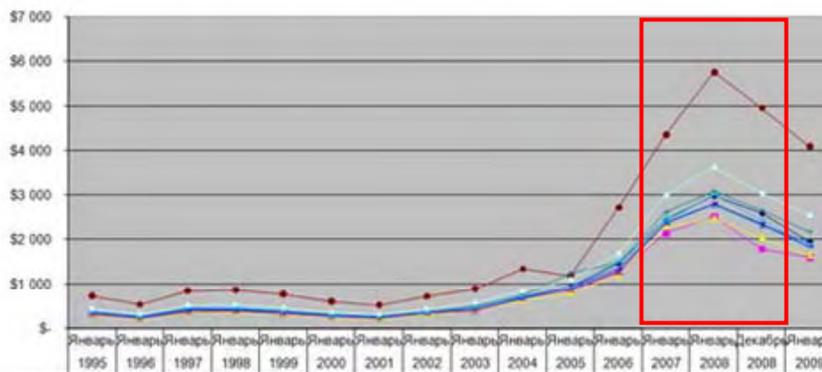
Рыночная стоимость жилья: ?

**СРЕДНЯЯ СТОИМОСТЬ КВАДРАТНОГО МЕТРА КВАРТИР В КИЕВЕ
(эквив. USD / 1 кв.м.)**



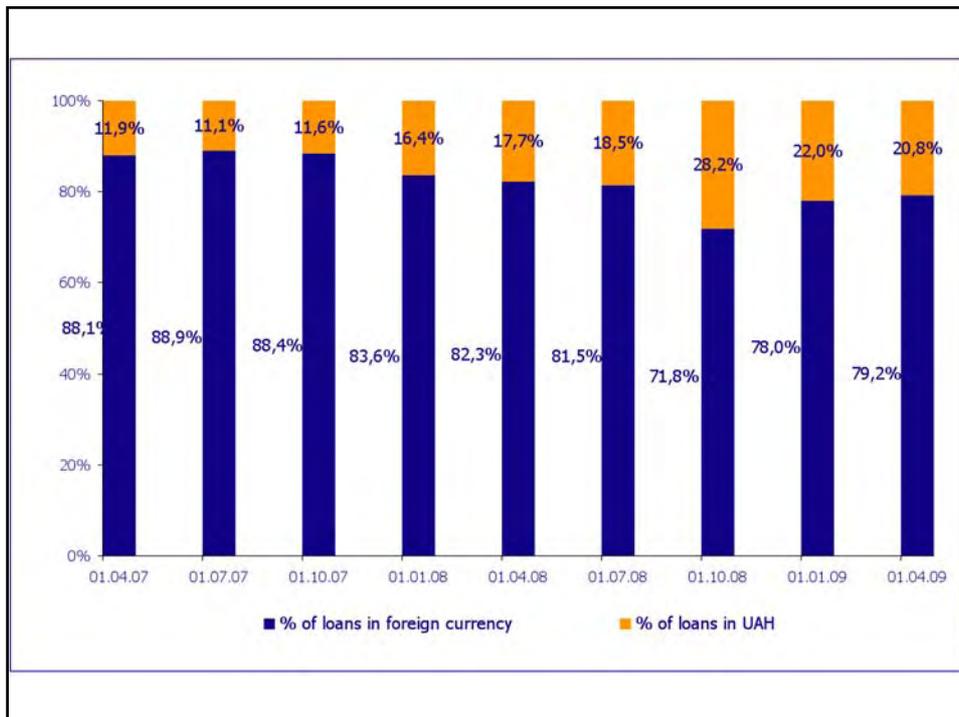
Цены на жилье

Средняя стоимость кв.м. жилой недвижимости вторичного рынка по Административным районам города
Киева 1995 год-2009 год



Source: Ассоциация специалистов по недвижимости Украины





**стандартный 20-летний кредит под 13.0%
на сумму UAH 33,500.0 млн**

месяц	основной долг	проценты	расчетные выплаты	фактические проплаты	неполученный доход	убытки
1	139.58	361.40	500.99	500.99	0.00	
2	139.58	359.89	499.48	499.48	0.00	
3	139.58	358.38	497.96	497.96	0.00	
4	139.58	356.87	496.45	311.68	184.77	74.97
5	139.58	355.36	494.94	311.68	183.26	73.92
6	139.58	353.84	493.43	311.68	181.75	72.87
7	139.58	352.33	491.91	311.68	180.23	71.83
8	139.58	350.82	490.40	311.68	178.72	70.78
9	139.58	349.31	488.89	311.68	177.21	69.73
10	139.58	347.80	487.38	311.68	175.70	68.68
11	139.58	346.28	485.87	311.68	174.19	67.64
12	139.58	344.77	484.35	311.68	172.67	66.59
13	139.58	343.26	482.84	311.68	171.16	65.54
14	139.58	341.75	481.33	311.68	169.65	64.50
15	139.58	340.23	479.82	311.68	168.14	63.45
	2093.75	5262.29	7356.04	5238.59	2117.45	830.50

Loss Given Default

Первоначальный основной долг: 33500.00 млн UAH

Выплаты основного долга: 2093.75

итого: **31406.25** 

убытки: 803.50

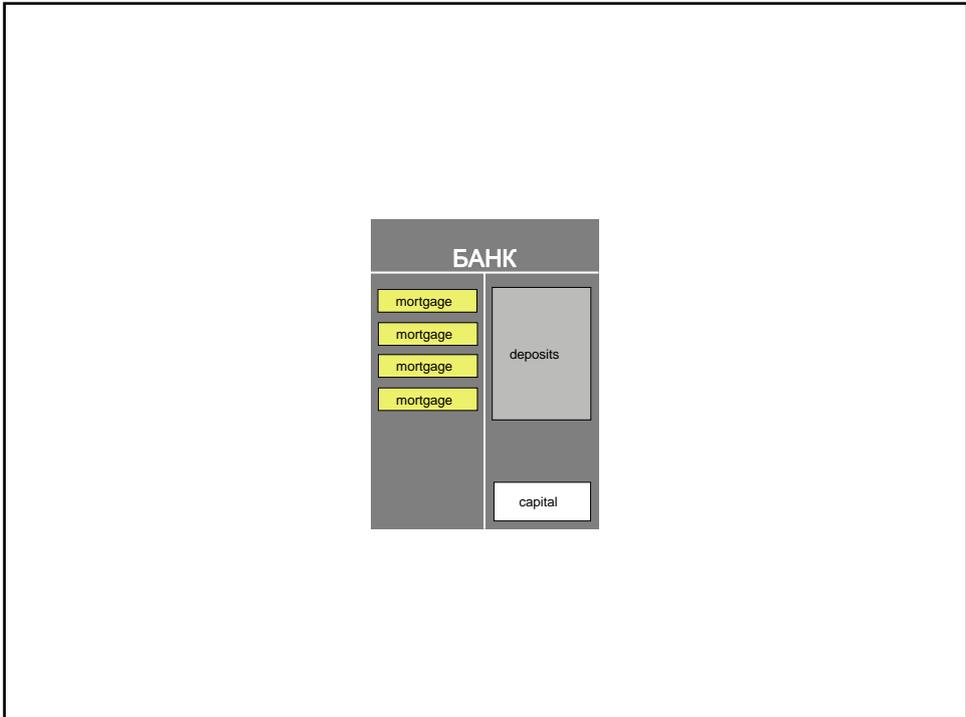
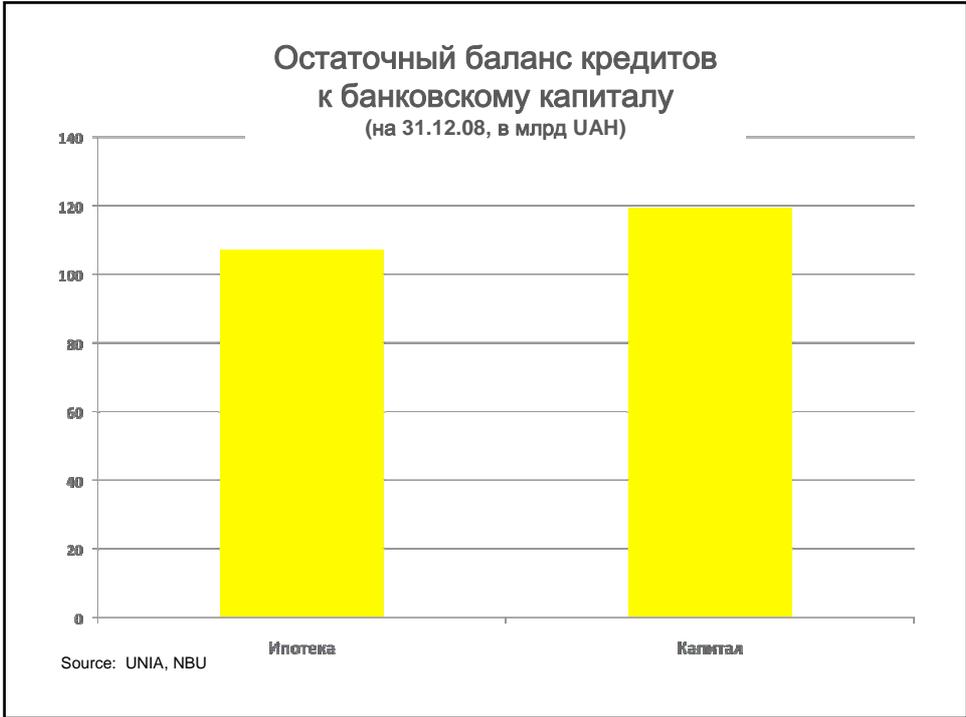
итого: **32236.75** 

прибыль: 1286.95

итого: **33523.70** 

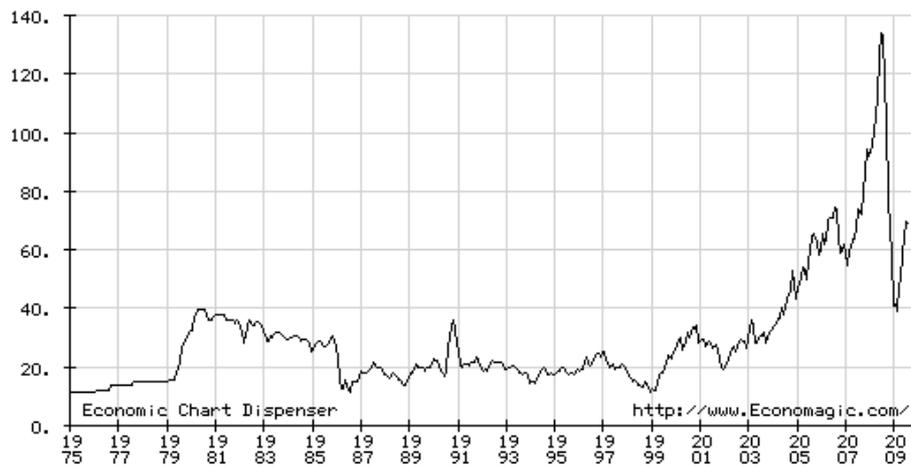
Цена покупки жилья: 44666.67

Рыночная стоимость жилья: ?

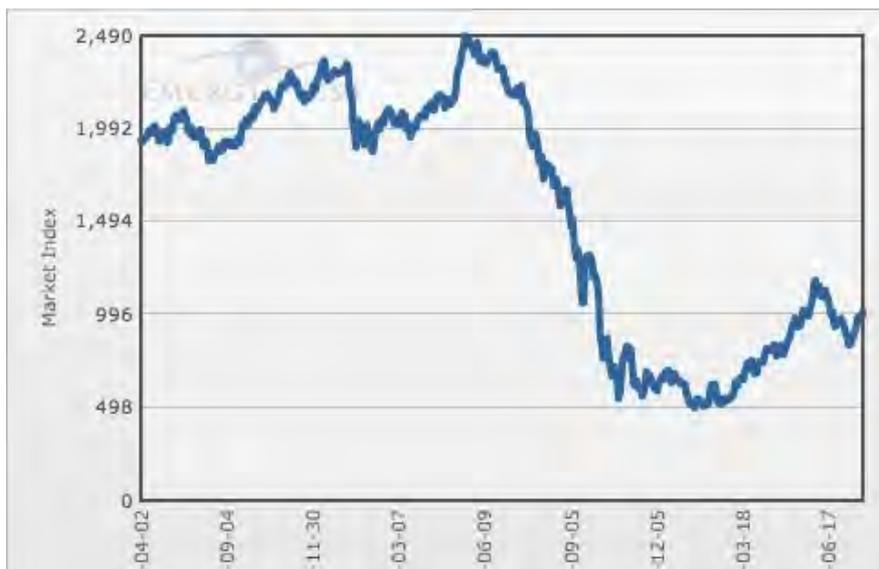


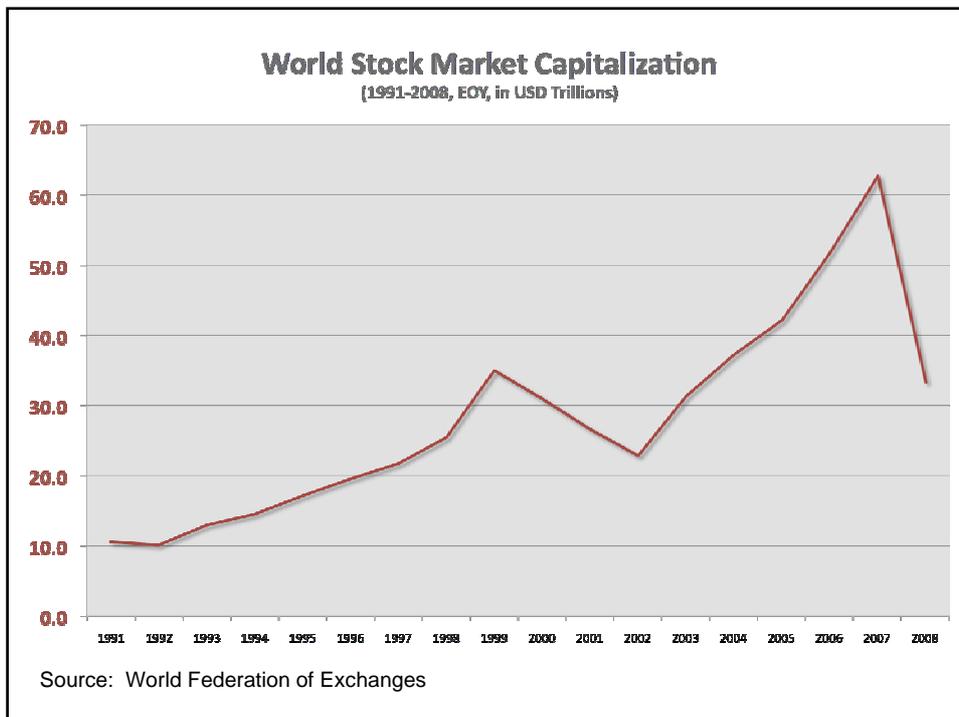
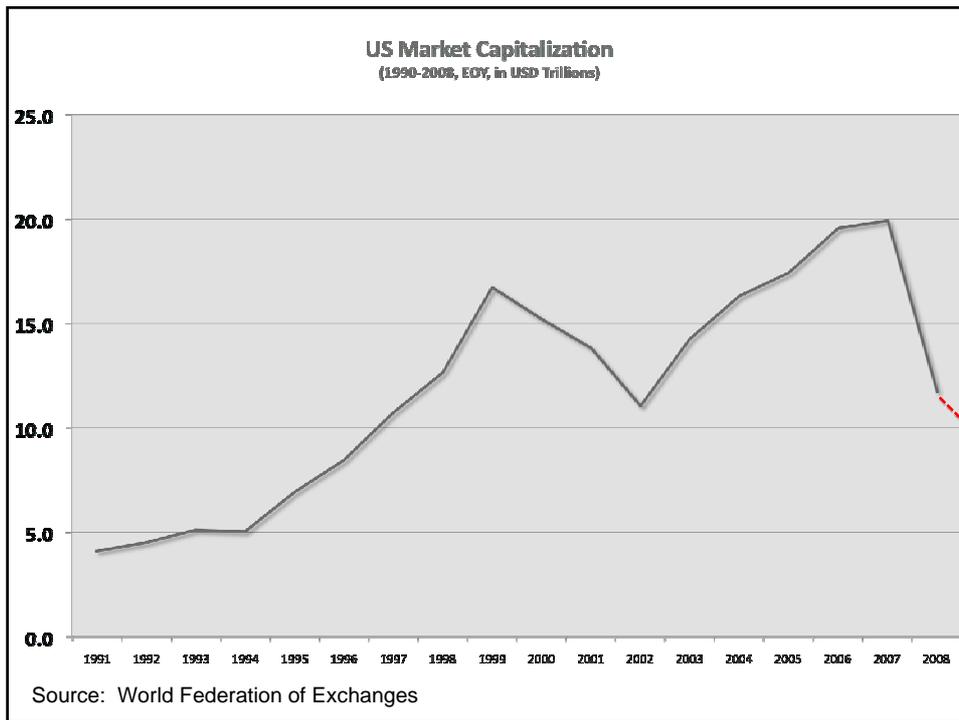


West Texas Intermediate Crude; Monthly, Dollars Per Barrel



RTS



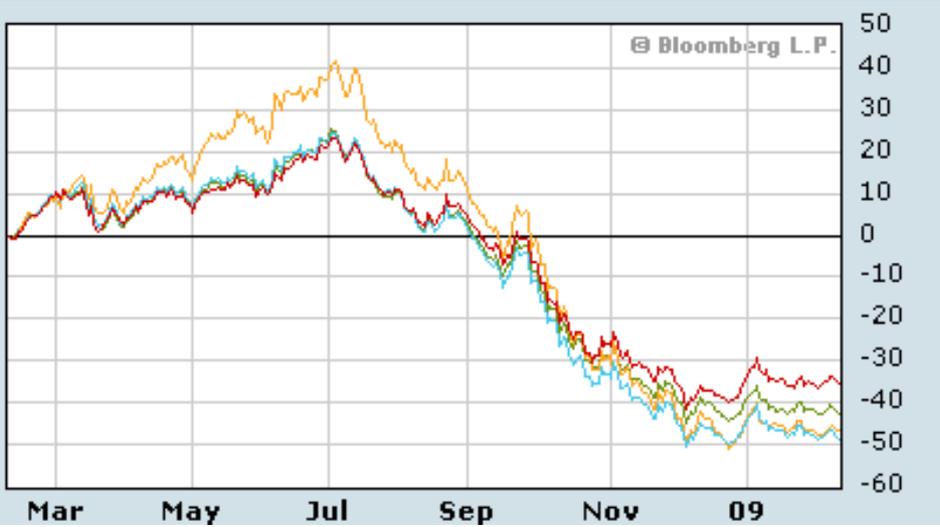


Emerging Market Bond Index Plus



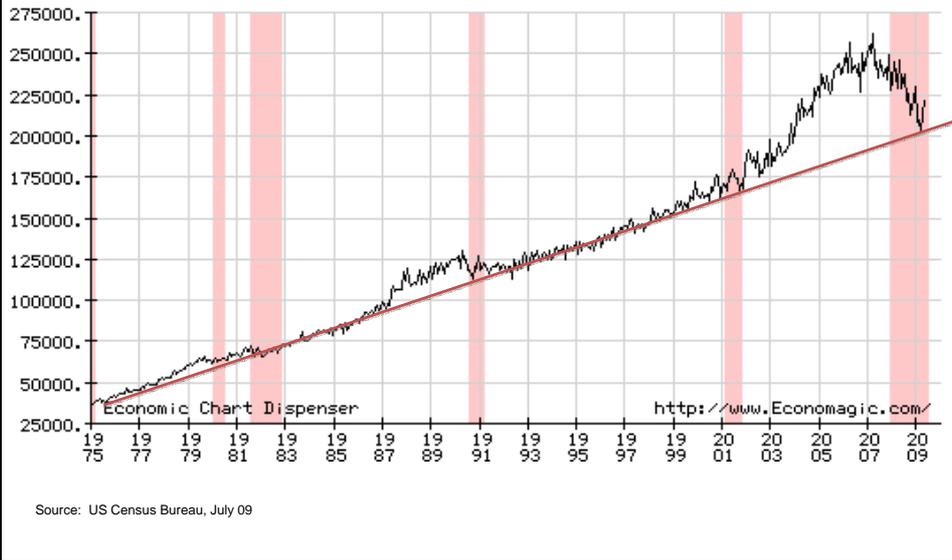
Source: Merrill Lynch

S&P GLOBAL COMMODITY INDEX



Assets: Housing

US: Median Price of Houses Sold



Assets: Housing

The Economist's house-price indicators

	Latest	Q1 2008	1997-
	% change		
	on a year earlier		
	2009*		
Switzerland	5.3	0.4	26
Italy	1.1	4.7	104
China	-1.1	11.0	na
South Africa	-2.7	8.1	384
United States (FHFA)	-3.3	-0.4	85
Japan	-3.4	-0.7	-35
Canada	-3.6	6.0	64
Sweden	-4.1	9.0	136
Germany	-4.2	-3.7	na
France	-6.6	4.3	133
Australia	-6.7	13.5	156
Spain	-6.8	3.8	175
New Zealand	-9.2	2.8	97
Netherlands	-10.2	2.1	78
Denmark	-10.5	-1.2	103
Ireland	-10.7	-8.6	182
Britain	-11.3	2.7	158
Hong Kong	-14.5	29.5	-34
United States (Case-Shiller ten-city index)	-18.6	-13.4	89
United States (Case-Shiller national index)	-19.1	-13.9	54
Singapore	-21.0	29.8	-13

*Q1 2009 or latest

Sources: ABSA; ESRI; FHFA; Hypoport; Japan Real Estate Institute; Nomisma; Nationwide; NWM; Quotable Value; Swiss National Bank; Standard & Poor's; government offices

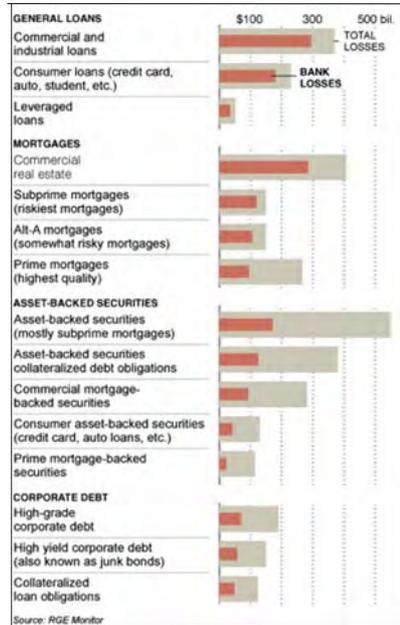
Bank Loans

COMMERCIAL BANKS/THRIFTS

Number of banks/thrifts:	8,384
Total Assets:	USD 13,573.7
Equity Capital:	USD 1,307.09
Commercial Mortgages	1,043.4
Residential Mortgages	2,102.1
Business Loans	1,503.7
Personal Loans	1,082.7
HELOC/Credit Card/Other	3,379.3
Securities	765.0
TOTAL	9,890.8

\$1.75 Trillion

Source: FDIC, S FMA, RGE Monitor, Author



World: Total Credit Market Debt

Table 3. Selected Indicators on the Size of the Capital Markets, 2007

(In billions of U.S. dollars unless noted otherwise)

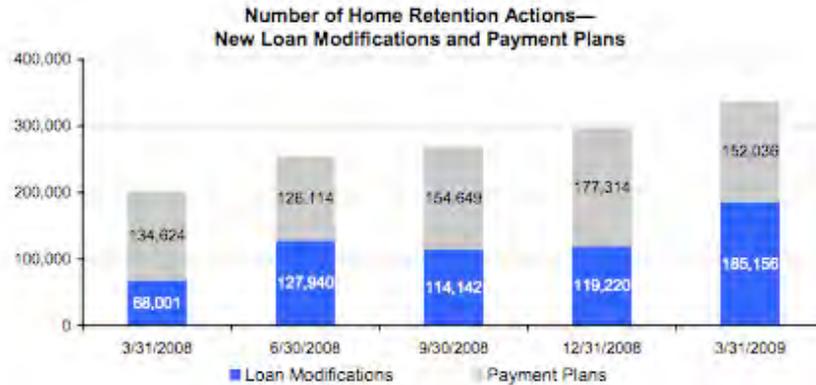
	GDP	Total Reserves Minus Gold ¹	Stock Market Capitalization	Debt Securities			Bank Assets	Bonds, Equities, and Bank Assets ²	Bonds, Equities, and Bank Assets ² (In percent of GDP)
				Public	Private	Total			
World	54,545.1	6,448.0	65,105.6	28,632.1	51,189.8	79,821.9	84,784.5	229,712.0	421.1
European Union	15,688.8	279.7	14,730.9	8,788.0	19,433.3	28,221.3	43,146.3	86,098.5	548.8
Euro area	12,202.6	172.1	10,040.1	7,612.7	15,411.2	23,023.8	30,137.1	63,461.4	520.1
North America	15,243.6	100.5	22,108.8	7,415.8	24,049.2	31,465.0	13,776.4	67,350.3	441.8
Canada	1,436.1	41.0	2,186.6	821.8	764.0	1,685.7	2,582.3	6,354.6	442.5
United States	13,807.6	59.5	19,922.3	6,594.0	23,285.2	29,879.3	11,194.1	60,995.7	441.8
Japan	4,381.6	952.8	4,663.8	7,147.7	2,069.8	9,217.5	7,839.4	21,720.6	495.7

Source: MF Global Financial Stability Report (2008)

Debt Securities and Bank Assets as % GDP

World	302%
European Union	454%
United States	297%
Japan	386%
Emerging Markets	185%
EM Europe	77%

Loan Modification



стандартный 20-летний кредит под 13.0% на сумму USD 75000

месяц	основной долг	проценты	расчетные выплаты	фактические проплаты	неполученный доход	убытки
1	312.50	812.50	1125.00	1020.83	0.00	
2	312.50	809.11	1121.61	1018.58	0.00	
3	312.50	805.73	1118.23	1016.32	0.00	
4	312.50	802.34	1114.84	1014.06	0.00	
5	312.50	798.96	1111.46	1011.81	0.00	
6	312.50	795.57	1108.07	1009.55	0.00	
7	312.50	792.19	1104.69	673.75	430.94	187.19
8	312.50	788.80	1101.30	673.75	427.55	184.84
9	312.50	785.42	1097.92	673.75	424.17	182.50
10	312.50	782.03	1094.53	673.75	420.78	180.16
11	312.50	778.65	1091.15	673.75	417.40	177.81
12	312.50	775.26	1087.76	673.75	414.01	175.47
13	312.50	771.88	1084.38	673.75	410.63	173.13
14	312.50	768.49	1080.99	673.75	407.24	170.78
15	312.50	765.10	1077.60	673.75	403.85	168.44
16	312.50	761.72	1074.22	673.75	400.47	166.09
17	312.50	758.33	1070.83	673.75	397.08	163.75
18	312.50	754.95	1067.45	673.75	393.70	161.41
	5625.00	14107.03	19732.03	14176.15	4947.81	2091.56

**Стандартный 30-летний кредит под 13.0%
на сумму USD 75000**

месяц	основной долг	проценты	расчетные выплаты	фактические проплаты	неполученный доход	убытки
1	208.33	812.50	1020.83	1020.83	0.00	
2	208.33	810.24	1018.58	1018.58	0.00	
3	208.33	807.99	1016.32	1016.32	0.00	
4	208.33	805.73	1014.06	1014.06	0.00	
5	208.33	803.47	1011.81	1011.81	0.00	
6	208.33	801.22	1009.55	1009.55	0.00	
7	208.33	798.96	1007.29	721.00	286.29	40.46
8	208.33	796.70	1005.03	721.00	284.03	38.90
9	208.33	794.44	1002.78	721.00	281.78	37.33
10	208.33	792.19	1000.52	721.00	279.52	35.77
11	208.33	789.93	998.26	721.00	277.26	34.21
12	208.33	787.67	996.01	721.00	275.01	32.65
13	208.33	785.42	993.75	721.00	272.75	31.08
14	208.33	783.16	991.49	721.00	270.49	29.52
15	208.33	780.90	989.24	721.00	268.24	27.96
16	208.33	778.65	986.98	721.00	265.98	26.40
17	208.33	776.39	984.72	721.00	263.72	24.83
18	208.33	774.13	982.47	721.00	261.47	23.27
	3750.00	14279.69	18029.69	14743.15	3286.54	382.38



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

Thank you.

ATCI