USAID | UKRAINE
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE

UKRAINE & MOLDOVA

EIGHTEENTH QUARTERLY REPORT – UKRAINE

JANUARY 1, 2009 – MARCH 31, 2009

April 30, 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

EIGHTEENTH QUARTERLY REPORT - UKRAINE

January 1, 2009 – March 31, 2009

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

CTO USAID/Ukraine: Natalia Berezhna
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.

TABLE OF CONTENTS

UKRAINE (Eighteenth Quarterly) ***3***

A. PROJECT OVERVIEW - Ukraine **3**
- I. PROJECT DESCRIPTION – Executive Summary Ukraine 3
- II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Executive Summary Ukraine 4
- III. PROJECT EXECUTIVE SUMMARY – Executive Summary Ukraine 6
- IV. PROJECT STAFFING – Executive Summary Ukraine 13
- V. ADMINISTRATIVE ISSUES – Executive Summary Ukraine 14

B. MORTGAGE - Ukraine **15**
- I. COMPONENT DESCRIPTION – Mortgage Ukraine 15
- II. SIGNIFICANT EVENTS – Mortgage Ukraine 15
- III. EXECUTIVE SUMMARY – Mortgage Ukraine 16
- IV. ADMINISTRATIVE ISSUES – Mortgage Ukraine 19
- V. DESCRIPTION AND STATUS OF TASKS – Mortgage Ukraine 19

C. FIXED INCOME – Ukraine **24**
- I. COMPONENT DESCRIPTION – Fixed Income Ukraine 24
- II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Fixed Income Ukraine 24
- III. EXECUTIVE SUMMARY – Fixed Income Ukraine 26
- IV. ADMINISTRATIVE ISSUES – Fixed Income Ukraine 28
- V. DESCRIPTION AND STATUS OF TASKS – Fixed Income Ukraine 29

D. MUNICIPAL - Ukraine **32**
- I. COMPONENT DESCRIPTION – Municipal Ukraine 32
- II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Municipal Ukraine 32
- III. EXECUTIVE SUMMARY – Municipal Ukraine 33
- IV. ADMINISTRATIVE ISSUES – Municipal Ukraine 34
- V. DESCRIPTION AND STATUS OF TASKS – Municipal Ukraine 35

E. LEASING - Ukraine **38**
- II. COMPONENT DESCRIPTION – Leasing Ukraine 38
- III. SIGNIFICANT EVENTS – Leasing Ukraine 38
- III. EXECUTIVE SUMMARY – Leasing Ukraine 39
- IV. ADMINISTRATIVE ISSUES – Leasing Ukraine 42

F. CREDIT BUREAU/CREDIT RATING AGENCY – Ukraine **45**
- I. COMPONENT DESCRIPTION – Credit Bureau Ukraine 45
- II. SIGNIFICANT EVENTS - Credit Bureau Ukraine 45
- III. EXECUTIVE SUMMARY – Credit Bureau Ukraine 46
- IV. COMPONENT DESCRIPTION - Credit Rating Ukraine 46
- V. SIGNIFICANT EVENTS - Credit Rating Ukraine 47
- VI. EXECUTIVE SUMMARY - Credit Rating Ukraine 47
- VII. ADMINISTRATIVE MATTERS – CB/CR Ukraine 48
- VIII. DESCRIPTION AND STATUS OF TASKS – CB/CR Ukraine 49

G. GENDER – Ukraine **53**
- I. COMPONENT DESCRIPTION – Gender Ukraine 53
- II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Gender Ukraine 53
- III. EXECUTIVE SUMMARY – Gender Ukraine 54
- IV. ADMINISTRATIVE ISSUES – Gender Ukraine 54
- V. DESCRIPTION AND STATUS OF TASKS – Gender Ukraine 54

MOLDOVA (Tenth Quarterly) ***57***

A. PROJECT OVERVIEW - Moldova ***57***
- I. PROJECT DESCRIPTION - Executive Summary Moldova 57
- II. SIGNIFICANT EVENTS AND ACHIEVEMENTS - Executive Summary Moldova 59

III. PROJECT ACTIVITIES AND EVENTS DURING THE QUARTER UNDER REVIEW – Executive Summary Moldova 59
IV. PROJECT STAFFING – Executive Summary Moldova 62
V. ADMINISTRATIVE ISSUES – Executive Summary Moldova 62

B. MORTGAGE LENDING - Moldova 63
I. COMPONENT DESCRIPTION – Mortgage Lending Moldova 63
II. SIGNIFICANT EVENTS – Mortgage Lending Moldova 63
III. TECHNICAL SUMMARY – Mortgage Lending Moldova 63
IV. ADMINISTRATIVE ISSUES – Mortgage Lending Moldova 66
V. DESCRIPTION AND STATUS OF TASKS (RELEVANT TO WORK PLAN THIS QUARTER) – Mortgage Lending Moldova 66

C. FINANCIAL LEASING - Moldova 73
I. COMPONENT DESCRIPTION – Financial Leasing Moldova 73
II. SIGNIFICANT EVENTS – Financial Leasing Moldova 73
III. EXECUTIVE SUMMARY – Financial Leasing Moldova 73
IV. ADMINISTRATIVE ISSUES – Financial Leasing Moldova 73
V. DESCRIPTION AND STATUS OF TASKS – Financial Leasing Moldova 74

D. FIXED INCOME - Moldova 77
I. COMPONENT DESCRIPTION – Fixed Income Moldova 77
II. SIGNIFICANT EVENTS – Fixed Income Moldova 77
III. EXECUTIVE SUMMARY – Fixed Income Moldova 77
IV. ADMINISTRATIVE ISSUES – Fixed Income Moldova 83
V. DESCRIPTION AND STATUS OF TASKS – Fixed Income Moldova 83

E. DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING - Moldova 85
I. COMPONENT DESCRIPTION - DCA Monitoring Moldova 85
II. SIGNIFICANT EVENTS: DCA Monitoring Moldova 85
III. EXECUTIVE SUMMARY: DCA Monitoring Moldova 85
IV. ADMINISTRATIVE ISSUES: DCA Monitoring Moldova 85
V. DESCRIPTION AND STATUS OF TASKS – DCA Monitoring Moldova 86

TABLE OF ATTACHMENTS

Attachments – Ukraine

ATTACHMENT 1: SMI Bond Issuance Scheme proposed by ATCI

ATTACHMENT 2: Real Estate Pricing Index Data

ATTACHMENT 3: SMI UAH1 bn Cabmin Guaranteed Bond Issue Prospectus

ATTACHMENT 4: Presentation "Promotion of Housing Construction in Germany" – Workshop "State Policy in Housing Financing", March 4, 2009

ATTACHMENT 5: Concept for Development of the Domestic Market of Government Securities of Ukraine for 2009–2013

ATTACHMENT 6: Procedure for Purchase of Domestic Government Bonds Simultaneously Assuming an Obligation to Sell Them (Draft CM Resolution on Reverse Repo)

ATTACHMENT 7: Resolution on Primary Dealers of Government Securities

ATTACHMENT 8: Procedure for Selection of Primary Dealers of Government Securities

ATTACHMENT 9 : Standard Agreement on Supporting Government Bond Market (PD)

ATTACHMENT 10: Draft Cabmin Resolution 207 Amendments and Justification

ATTACHMENT 11: AUCC Letter re. Amendments to Domestic Bond Placement Procedures

ATTACHMENT 12: Domestic Government Bonds Outstanding in the First Quarter of 2009

ATTACHMENT 13: Schedule of placement of domestic government bonds for the first half-year 2009

ATTACHMENT 14: Amendments to the Law on State Budget 2009 Revised

ATTACHMENT 15: ATCI Proposed Amendments to the Budget Code

ATTACHMENT 16: Address of the Municipal Energy Saving Round Table to Ukrainian Authorities

ATTACHMENT 17: Draft Law on Local Borrowings

ATTACHMENT 18: Memorandum on CabMin Resolution No. 52 on the Procedure of Placement of Local Budget Balances on Deposits in Commercial Banks

ATTACHMENT 19: Minutes of the 4th General Meeting of the NGO

ATTACHMENT 20: Findings of the Leasing Survey-2008

ATTACHMENT 21: 3rd Issue of the Certified Lease Specialists Union's Newsletter

ATTACHMENT 22: Leasing Activities of Major Foreign Banks in Ukraine in 2008

ATTACHMENT 23: Credit Bureau Brochure in Ukrainian and English

ATTACHMENT 24: Vlast Deneg Interview

ATTACHMENT 25: ATCI Draft Law on Credit Ratings

Attachments – Moldova

ATTACHMENT 1: Access to Credit Initiative/Moldova Work Plan, updated as of February 2009

ATTACHMENT 2: ABM Consulting Report on CML Training

ATTACHMENT 3: Insurance Protection for Mortgage Lending in Moldova

ATTACHMENT 4: Guide to Issuing Mortgage Covered Bonds in Moldova

ATTACHMENT 5: Regulation Regarding Corporate Bonds Issue, Circulation and Redemption

ATTACHMENT 6: Financial Crisis Presentation

UKRAINE (Eighteenth Quarterly)

A. PROJECT OVERVIEW - Ukraine

I. PROJECT DESCRIPTION – EXECUTIVE SUMMARY UKRAINE

ATCI is tasked with developing the primary and secondary mortgage market with its associated infrastructure; increased capacity for the leasing industry including the development of certified leasing professionals; the ability for municipalities and utilities to use debt instruments to modernize vital infrastructure, and a credit bureau to facilitate the growth of credit for mortgages and other retail lending. While the credit bureau/credit rating component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation. The preliminary work plan was presented and accepted by USAID in November 2004. 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.

As mentioned in last quarter's report, USAID accepted ATCI's proposal to extend ATCI Moldova through February 2009; therefore, in this quarter, the ATCI Moldova project ended. With the extension of the Moldova project came a modified Work Plan for ATCI Ukraine that was approved by USAID. During Pragma's quarterly review of ATCI Ukraine, a further modification to this Work Plan was made, with subsequent formal approval from USAID. Technically speaking, not many changes were made to the Work Plan, mainly modifications as to the named staff and short term technical assistance (to be named) working on the named activities. Senior Advisor and ex-COP David Lucterhand left the project during this reporting quarter, with Rick Dvorin taking over all administrative and managerial responsibilities, while performing technical assistance where and when possible, e.g., in the area of developing the domestic government bond market.

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

The priorities of the Project for this period are noted by component in the boxes below. In particular, the highest priority for remaining period of ATCI falls within the Fixed Income component, more specifically to "Assist GOU and NBU in constructing a long-term government yield curve in Ukraine". There are several factors and activities needed to fulfill this goal, including cooperation with and from the GOU and NBU. In addition, such basics as (1) issuing domestic government bonds at market; (2) establishing a network of Primary Dealers, and (3) developing a Repo/reverse repo market are all necessary. Further details of the progress made in this area can be read in the Fixed Income component section of this Report.

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

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – EXECUTIVE SUMMARY UKRAINE

- ATCI AND SMI AGREED ON ESTABLISHMENT OF A WORKING GROUP FOR PROMOTING SMI'S WORK WITH BANKS' MORTGAGE ASSETS AND PRESENTED A SCHEME THAT INVOLVED BANKS' MORTGAGE BONDS

- ATCI JOINTLY WITH UNIA HELD SEMINAR "STATE POLICY IN HOUSING FINANCING"

- SMI MORTGAGE BONDS INCLUDED IN THE LIST OF ELIGIBLE PLEDGES FOR NBU REFINANCING IN THE FIRST QUARTER OF 2009;

- SMI SCHEDULED ISSUANCE OF UAH150 MLN WORTH OF MORTGAGE BONDS AND UAH1 BN OF CABMIN GUARANTEED BONDS FOR 2009 IN ITS FINANCIAL PLAN ADOPTED IN THE FIRST QUARTER OF 2009

- CABMIN ADOPTED THE INSTRUCTION ON APPROVAL OF THE CONCEPT OF THE DOMESTIC GOVERNMENT BOND MARKET DEVELOPMENT FOR 2009 – 2013 WHICH WAS DRAFTED WITH ATCI ASSISTANCE MORE THAN 2 YEARS AGO

- ATCI EMPLOYS AKK, HUNGARIAN DEBT MANAGEMENT AGENCY, TO ASSIST MINFIN IN DEVELOPMENT OF DOMESTIC GOVERNMENT BOND MARKET; ATCI JOINTLY WITH AKK DEVELOPS PROPOSALS FOR DEVELOPMENT OF THE DOMESTIC GOVERNMENT BOND MARKET, PROPOSES THE ESTABLISHMENT OF PRIMARY DEALER SYSTEM AND LAUNCH OF MOF'S REVERSE REPO TRANSACTIONS IN THE GOVERNMENT BOND MARKET

- ATCI ALONG WITH AKK MEETS OFFICIALS AND EXECUTIVES FROM THE NBU, PROSPECTIVE PRIMARY DEALERS (I.E., COMMERCIAL BANKS), ASSOCIATION OF UKRAINIAN BANKS, INSTITUTIONAL INVESTORS (STATE DEPOSIT GUARANTEE FUND, NON-GOVERNMENTAL PENSION FUNDS, INSURANCE COMPANIES), STOCK EXCHANGES, DISCUSSING THE ISSUES OF THE DEVELOPMENT OF GOVERNMENT BOND MARKET

- ATCI PRESENTS MOF WITH THE DRAFT PROCEDURE OF MOF'S REVERSE REPO TRANSACTIONS WITH THE GOVERNMENT SECURITIES IN LINE WITH RESPECTIVE BUDGET 2009 LAW ARTICLE 18

- ATCI PRESENTS MOF WITH THE DRAFT RESOLUTION ON PRIMARY DEALERS, DRAFT PROCEDURE FOR SELECTION OF PRIMARY DEALERS, AND DRAFT STANDARD AGREEMENT ON SUPPORTING GOVERNMENT BOND MARKET

- ATCI PROMOTES STRATEGY FOR UKRAINIAN CITY COUNCILS REGARDING PLACEMENT OF EXCESS TREASURY BALANCES PLEDGED WITH COLLATERAL OF MUNICIPAL BONDS AND DOMESTIC GOVERNMENT BONDS; ATCI INVITES THE PILOT CITIES AND THE CITIES THAT ANNOUNCED ABOUT PLANS TO ISSUE BONDS IN 2009 TO ADDRESS MOF WITH INITIATIVE TO ALLOW PLACEMENT OF MUNICIPAL INTEREST BEARING BONDS BELOW PAR; IN COOPERATION WITH THE INSTITUTE FOR BUDGETARY AND SOCIAL AND ECONOMIC RESEARCH, ATCI

DRAFTED AMENDMENTS TO THE CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS, WHICH ALLOW PLACEMENT OF MUNICIPAL BONDS BELOW PAR, IF THOSE BONDS ARE PLACED PUBLICLY AT A STOCK EXCHANGE

- STATE BUDGET LAW 2009 ENVISAGES UAH70 BN DOMESTIC GOVERNMENT BOND ISSUANCE PROGRAM

- MR. LYTVYN WAS REPLACED BY MR. KRAVETS AS DEPUTY MINISTER OF FINANCE IN CHARGE OF PUBLIC DEBT AT THE MOF

- ATCI DEVELOPED AND SUBMITTED PROPOSALS TO THE DRAFT AMENDMENTS TO THE BUDGET CODE

- ATCI DRAFTED AMENDMENTS TO THE CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS

- ATCI ADVISED THE CITY OF LVIV ON DRAFT CITY COUNCIL RESOLUTION ON MAKING BORROWING, CURRENT INTEREST RATES, BOND CHARACTERISTICS (REGISTERED/BEARER BOND, CALL OPTION/NO OPTIONS).

- ATCI PROMOTED INCLUSION OF THE INITIATIVE TO PERMIT PRIMARY PLACEMENT OF INTEREST BEARING MUNICIPAL BONDS BELOW PAR

- ATCI DRAFTED AMENDMENTS, IN PARTICULAR ON INTRODUCTION OF DEFINITIONS OF CONTINGENT LIABILITIES AND CONTINGENT DEBT AND ON REGULATION OF UNDERTAKING OF OBLIGATIONS BY LOCAL COMMUNITIES UNDER PUBLIC-PRIVATE PARTNERSHIP, INTRODUCED TO THE DRAFT LAW ON LOCAL BORROWINGS, WHICH ALSO INCLUDES SECTION ON ESTABLISHMENT AND FUNCTIONING OF A MUNICIPAL FINANCE FACILITY

- ATCI PROVIDED ANALYSIS OF THE CABINET OF MINISTERS' RESOLUTION #52 WHICH SHOWS THAT IT CONTRADICTS THE CONSTITUTION OF UKRAINE, THE BUDGET CODE, AND MANY OTHER LAWS. STARTED INITIATIVE ON PILOT MUNICIPAL REPO TRANSACTIONS WITH DOMESTIC GOVERNMENT BONDS AND MUNICIPAL BONDS OF OWN ISSUANCE IN ORDER TO AVOID LOSE OF LOCAL BUDGETS FUNDS BECAUSE OF POSSIBLE INSOLVENCY OF THE BANKS CAUSED BY THE FINANCIAL CRISIS.

- ATCI HELD AWARDS CEREMONY FOR THE 12 ADDITIONAL INDIVIDUALS WHO SUCCESSFULLY COMPLETED THE CLS TRAINING AND EXAMS DURING; TOTAL NUMBER OF CLS IN UKRAINE IS AT 95 PERSONS (47 MEN AND 48 WOMEN).

- ATCI CONTINUED TO TAKE PART IN THE WORK OF THE LEASING COMMISSION WITHIN THE UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS WITH REGARD TO LEGISLATIVE INITIATIVES AIMED AT CREATING A FAVORABLE ENVIRONMENT FOR THE DEVELOPMENT OF LEASING. ATCI PROPOSED HOLDING SEMINARS FOR PUBLIC OFFICIALS TO RAISE THEIR AWARENESS AND UNDERSTANDING ABOUT LEASING; INITIAL SEMINAR PROPOSED FOR NEXT QUARTER.

- FINDINGS OF THE LEASING SURVEY-2008 WERE PRESENTED SHOWING A 40% DROP IN NEW LEASES AS COMPARED TO 2007 AND DECREASE IN LEASING PORTFOLIO IN THE 4Q OF 2008.

- ATCI HELD SEVERAL MEETINGS WITH THE NGO WORKING GROUP DURING WHICH THE GRANT-SEEKING STRATEGY WAS ELABORATED AND SHORT-TERM PLANS ON ATTRACTING NEW MEMBERS AND ENCOURAGING EXISTING ONES WERE DEFINED.

- DRAFTING AND EDITING OF THE LEASING MANUAL WAS FINISHED AND PREPARATION FOR ITS PUBLISHING HAS BEGUN. ATCI EXPECTS THE LEASING MANUAL TO BE AVAILABLE FOR DISTRIBUTION BY THE MIDDLE OF NEXT QUARTER.

- ATCI PARTICIPATES IN MINFIN WORKING GROUP TO DRAFT A LAW CONCERNING ACTIVITIES AND REGULATION OF COLLECTION AGENCIES TO KEEP CONSUMER PRIVATE INFORMATION CONFIDENTIAL

- MAGAZINE 'VLAST DENEG' PUBLISHES INTERVIEW WITH CHIEF OF PARTY, "BEST INTERNATIONAL PRACTICES OF CREDIT BUREAUS; 'CREDIT BUREAUS WHICH SELL CREDIT REPORTS TO COLLECTION AGENCIES MUST LOSE LICENSES'

- ATCI, IN PURSUIT OF MARKET EDUCATION AND PUBLIC AWARENESS EFFORTS, PUBLISHES 10,000 COPIES OF FAQ BROCHURE ON CREDIT BUREAUS, DISTRIBUTING TO THE CREDIT BUREAUS AND THEIR FINANCIAL INSTITUTIONAL PARTNERS

- VERKHOVNA RADA ADOPTED AMENDMENTS TO THE LAW OF UKRAINE N2316 "ON ORGANIZING THE FORMATION AND CIRCULATION FOR CREDIT HISTORIES". AUTHORITY FOR SUPERVISION AND LICENSING HAS BEEN TRANSFERRED FROM MINJUST TO FSR.

III. PROJECT EXECUTIVE SUMMARY – EXECUTIVE SUMMARY UKRAINE

Mortgage

Primary
To date, CML-trained personnel now comprise one hundred thirteen certificate holders, fifty-four of whom (48%) are women. The number of banks whose personnel have been trained totals forty-four.

At the request of UNIA, ATCI contracted IUE to develop 3 new presentations to be added to the CML-course work. These presentations are related to risk management. IUE completed and delivered these presentations to ATCI early in the reporting quarter.

ATCI and UNIA are planning for a revised and shortened CML training program to meet the needs of the market and to become sustainable as a program both technically and financially through UNIA. CML training will continue to be on a fee-paid basis, but with a shortened program, fees should be less. UNIA had sent invitations to its CML training program in the latter part of the quarter, however, mainly due to a greatly decreased activity in mortgages along with cuts in staffing, UNIA had to postpone the training with a lack of responses.

In the face of the financial crisis, ATCI co-sponsored along with UNIA the seminar, "Estimation of losses from mortgage defaults according to Basel II", to provide some direction to banks issuing mortgages. The seminar helped raise awareness of financial institutions experts on the LGD (Loss Given Default) database development, and on fundamental concepts and regulations in the domain of risk management, in compliance with Basel II.

Another seminar co-sponsored by ATCI and UNIA was held late in the reporting quarter. This seminar, "Government Policy in Housing Finance" aimed at raising awareness of Ukraine's mortgage market players about government support in the area of housing finance in the countries of Eastern and Western Europe.

UNIA provided ATCI with pilot data for the index construction that it received from selected banks. ATCI requested UNIA to compliment the data with the number of the deals in the secondary market to be able to finish construction of the pilot index. To date, the index is still under construction awaiting more and complete information.

Secondary Market

State Budget Law 2009 assigned UAH800 million contribution to the state's Oschadbank and Ukreximbank's statutory capital for the purpose of mortgage lending.

State Mortgage Institution (SMI)

SMI registered a mortgage covered bond issue of UAH 200 million in series A,B,C,D,E,F,G at the SSMSC and published the prospectus for the issue. The mortgage covered bonds of series A and G worth UAH 50 million were placed ahead of schedule and listed on PFTS Stock Exchange in the second tier. SMI plans to issue UAH 150 mln worth of mortgage bonds and UAH1bn worth of Cabmin guaranteed bonds in 2009 according to its financial plan adopted in the first quarter of 2009. SMI published prospectus of its UAH1 bn Cabmin guaranteed bond issue. Anti-crisis law no. 800 for Housing Sector and Residential Construction that, in particular, stipulates financing of housing through issuance of SMI mortgage bonds, came into force. ATCI jointly with UNIA held workshop "State Policy in Housing Financing, where representatives of Federal R&D Institute for Promotion of Development of Construction, Cities and Regions presented their report.

SMI selected the 2 state banks, Oshchadbank and Ukreximbank, as its back-up mortgage loan service banks.

Pilot Issues

Khreschatyk registered the UAH 70 million mortgage bond issue at the SSMSC, published the Prospectus and started placement of the bond. The bond was successfully placed and listed on PFTS stock exchange in December 2008. In January, 2009, SSMSC cancelled registration of the issue on the issuer application. The implication of this for market development and testing of the legal framework was positive, because it was for the first time when mortgage bonds were successfully redeemed and the first time when redeemed early.

ATCI continued its work on draft amendments to the Mortgage Bond Law. Jointly with the Audit Task Force under the SSMSC, ATCI submitted draft amendments regarding agreed upon procedures to the SSMSC's 1528 Regulation on Audit Reports. 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.

The draft amendments to the Mortgage Bond Law were introduced to Verkhovna Rada and forwarded for consideration of the Committee on Finance and Banking last quarter. The Committee on Finance and

Banking submitted a draft Resolution on adopting the draft amendments to the Mortgage Bond Law in the first reading to Verkhovna Rada. The promotion of adopting the amendments to Mortgage Bonds Law was included in the Cabinet of Ministers' Anti-crisis Program of Activities for 2009. Verkhovna Rada rejected the amendments by a narrow margin. ATCI considering approaches for re-introduction.

Associated Market Infrastructure

Life Insurance Products

ATCI conducted a survey and analyzed mortgage-related life insurance within the associated infrastructure for goals to protect and to aid (prospective) homeowners. The analysis showed that term-life insurance is offered in 8 banks of the 20 banks polled. Based on this analysis, ATCI concluded that term-Life Insurance is already developed in the market, but is not yet fully offered through the mortgage companies.

In order to determine the effectiveness of these Term-Life Insurance policies, ATCI analyzed specific policies to determine the benefits as well as exclusions related to the insured's mortgage. During jointly sponsored ATCI/UNIA Round-Table "Life Insurance: Its Place and Role in Mortgage Market Development in Ukraine" ATCI presented the conclusions drawn from analysis of the Term-Life survey.

Appraisals and Real Estate Associations

The text book on international standards of appraisal released has now been translated; the book will be used as the main course material as well examination basis for appraisers.

An emergency meeting of the membership of the Ukrainian Association of Appraisers (UTO) and State Property Fund was held in October, to address measures included in the Commodity Exchange Law that removed UTO's and the State Property Fund's ability to set standards for the profession. More than 750 interested persons attended including members of the Rada. The legislation was an attempt by persons and entities to usurp authority for the licensing and certification of appraisers from UTO and the State Property Fund. At its conclusion, members of the Rada and the Ministry of Justice that was present promised that the law in this form would never be approved.

ATCI expects Norm Flynn to return to Ukraine in the coming quarter for further efforts in completing the merger between the real estate associations and in finalizing appraisal course work. In addition, the IRPF and ATCI are considering assisting the Ukrainian Real Estate Association develop a single Ukrainian data base of completed real estate transactions. The database would serve to provide information on the real estate market, to stimulate transparency, to optimize business processes, to assist in developing a qualitative marketing strategy, and contribute to the analysis of the Ukrainian real estate market competitiveness.

Fixed Income

ATCI began to concentrate on developing a long-term government yield curve for Ukraine in winter 2006 when trying to price the pilot Ukrgasbank covered bond issue without pricing reference (government yield curve). ATCI approached the MOF to gauge their interest in cooperating with ATCI to host a high level debt management forum for senior leadership. The Forum was designed to explore what steps the Government of Ukraine should take to manage its debt requirements efficiently; to examine the role *domestic* government debt markets play in efficient capital allocation; to analyze the institutional framework requisite for market development such as the role of primary dealers, use of pre-announced auction calendars; development of a debt management strategy; mitigation of risk in debt management, establishing a debt management office (DMO) and comparisons of how debt management offices (DMOs) are organized

and work in other countries. In sum, the Forum was to analyze what has worked in other countries facing similar circumstances and what has not. Subsequently, the Forum took place in March 2007 and explored the practical aspects of formulating a debt management strategy.

In order to assist the MOF in these developments of the domestic government bond and repo markets, ATCI employed the technical assistance of AKK, the Debt Management Agency of Hungary. Their key professionals have had prior experience working in Ukraine and working with the MOF of Ukraine as well. AKK work with ATCI in Ukraine began in January 2009. ATCI arranged meetings for AKK with many of the key counterparts and participants in the government bond market, attended these meetings, and also attended and contributed in presentations to the Deputy Ministers of Finance. Presentations focused on the findings of the AKK team along with making recommendations as to what is needed for development of the domestic government bond market in Ukraine.

Among the findings of AKK regarding the current situation in Ukraine:

- In the last couple of years in particular, most of the financing came from external sources in foreign currency (exposing the government to exchange rate and refinancing risks);
- With the devaluation of the UAH, risks have been realized;
- There is an underdeveloped institutional investor base in Ukraine, i.e., lack of insurance companies, pension and investment funds;
- Households have no confidence in banks, government, etc.;
- No primary price guidance due to lack of auctions at market rates.

Among the possible solutions and other recommendations, AKK states:

- Auctions to be held using Market Pricing;
- Set up the Primary Dealer system, minimum 6 and maximum 16 PDs;
- Start with short maturities in small amounts;
- Issue domestic government securities to attract domestic savings and 'mattress money';
- Develop other segments of the financial market, e.g., mutual and pension funds; insurance companies, to create demand for government securities; and
- Set up an investor relations department within the MOF to improve international and domestic perceptions of the government securities market.

A key meeting set up by ATCI was held with AKK and First Deputy Minister of Finance Umanskyi. The AKK experts along with ATCI key staff focused on the implementation of the Primary Dealer System, including the procedure for selection of primary dealers and their market making activities, and on the amendments to the relevant draft law on public debt and draft resolution on primary dealers, with purpose to kick start the development of the domestic government bond market at market prices.

A subsequent meeting and presentation was held with Deputy Minister of Finance Kravets, discussing the summary of findings and recommendations developed by the AKK experts regarding the needs for further development of the domestic government bond market. Mr. Kravets agreed with the findings and the need to start pilot issuance of domestic government bonds; ATCI provided a plan for the pilot issuance program to Mr. Kravets, which awaits his approval.

To assist the MOF in developing the domestic government bond market, ATCI has continued to draft many documents including draft procedures on reverse repurchase (repo) transactions; draft resolution on Primary Dealers; draft procedure on selection of PDs; and draft standard agreement between the MOF and PDs.

ATCI organized a meeting with Max Alier, Resident IMF Representative, discussing the status of the development of the domestic government bond market with to gain additional support. Discussed were the current state of the government securities market in Ukraine and the bottlenecks in its development; Mr. Alier agreed that the Ministry of Finance should adopt market rates and implement one-stage auctions, use repo tools, and he supported this market advancement by means of market-making services and primary market operations.

On March 25th, 2009, the Cabinet of Ministers of Ukraine adopted the Instruction on Approval of the Concept of the Domestic Government Bond Market Development for 2009 – 2013 that encompassed most of the recommendations provided by the ATCI/AKK. ATCI assisted in the original drafting of this Concept more than 2 years ago.

While promoting Odesa City Council's placement of the excessive treasury balances pledged with collateral of Odesa municipal bonds, ATCI found that according to SSMSC Resolution No. 414 it is prohibited to place interest bearing municipal bonds below par. Since capital markets have become much more volatile in the financial crisis such prohibition impedes the development of domestic bond market. ATCI applied to the SSMSC to consider the possibility of introducing changes to the Resolution stipulating a possibility of primary placement of municipal bonds below par, provided those are placed publicly at a stock exchange.

ATCI participated in the PTAP mission held in January 2009, meeting with the World Bank, the USAID-funded Capital Markets Project, and various potential primary dealers and counterparts for assistance in the development of the Government Bond Market.

Municipal Finance

City of Lviv decided to issue UAH 300 mln. bond in 2009 in preparation for EURO-2012 Football Championship, and requested ATCI to continue technical assistance. ATCI advised the city on draft City Council resolution on making borrowing, current interest rates, bond characteristics (registered/bearer bond, call option/no options).

ATCI continued to develop its initiative on introducing amendments to the SMSSC Regulation 414 providing for a 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 a 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. Ministry of Finance needs several letters supporting this idea from Ukrainian cities in order to appeal to the SSMSC to change its regulation. ATCI's relevant proposals were included to the Address of the Municipal Energy Saving Round Table to Ukrainian authorities.

- The Budget Committee of the Verkhovna Rada is preparing draft amendments to the Budget Code for the second reading. ATCI developed proposals to the draft amendments which are aimed to simplify local borrowings within the crises environment.

ATCI introduced relevant amendments, in particular on introduction of definitions of contingent liabilities and contingent debt and on regulation of undertaking of obligations by local communities under public-

private partnership, to the draft Law on Local Borrowings, which also includes section on establishment and functioning of a Municipal Finance Facility.

ATCI Chief of Party met with ITT Investment Group President, which might consider a possibility to invest into MFF seed capital. ITT Group President to get back to COP to voice interest.

In cooperation with the Institute for Budgetary and Social and Economic Research, ATCI drafted amendments to the Cabinet of Ministers Resolution 207 *On Procedure of Local Borrowings*, which include elimination of mandatory credit rating, exclusive list of reasons for MinFin's rejection to approve, and the possibility of primary placement of municipal bonds below par, if those bonds are placed publicly at a stock exchange.

Ukrainian municipalities have treasury balances to be placed for liquidity management purposes. But on January 28, 2009, the Cabinet of Ministers adopted Resolution #52 "On Approval of the Procedure for Placement in 2009 of Temporarily Free Funds of Local Budgets in Deposit Accounts in the Banking Institutions" which obliges municipalities to place their treasury balances exclusively in state-owned banks. ATCI's analysis of the Resolution shows that it contradicts the Constitution of Ukraine, the Budget Code, and many other Laws. As of March 1, 2009, UAH 400 mln were not repaid to cities by commercial banks after deposits' maturities. Due to such situations ATCI started initiatives on pilot municipal Repo transactions with domestic government bonds and municipal bonds of own issuance, as provided by the Article 18 of the Law On State Budget of Ukraine for 2009.

ATCI attended All-Ukrainian Municipal Hearings, conducted by the Fund of Ukraine's Local Governance Promotion and the Association of Ukrainian Cities with participation of the President, Members of Parliament, Ministers, local governments and city mayors. ATCI participated in Section on financial, economic, legal and institutional reforms of the local governance.

Leasing

On February 3, ATCI held CLS Awards Ceremony for the sixth time, awarding 12 certificates; total number of Certified Lease Specialists in Ukraine now 95, 47 men and 48 women.

Together with the CLS Awards Ceremony, the 4th General Meeting of the Certified Lease Specialists Union (the NGO) was held. Discussions touched upon the ways to finance the NGO's activities, including determining the amount of membership dues and setting up a working group on fundraising, as well as possible spheres of cooperation with the Leasing Association and Kyiv National University for Trade and Economics (KNUTE). Participants of the meeting approved the NGO's annual budget for 2009 and, as part of it, payment of membership dues in the amount of UAH 200 (USD 26) per year. ATCI is currently in communications with the CLPF for the transfer of the CLS license.

In January-March, ATCI continued to take an active part in the work of the Leasing Commission within the Ukrainian League of Industrialists and Entrepreneurs. During that period, the Commission focused on finding alternative ways to push forward their legislative initiatives since the Anti-crisis Draft Law no.3306 did not pass the first reading in Verkhovna Rada and was returned for follow-on revision. Such ways might include addressing the Ministry of Finance for it to support the amendments proposed as well as joining efforts with banking and transport lobbies which have similar interests. Yet another area of the Commission's activities suggested by ATCI was holding of educational seminars for public officers to raise their awareness about leasing and how it works. First such seminar is planned for May 28, 2009, and the list of potential participants includes representatives of the Ministry of Finance, Verkhovna Rada, National Bank of Ukraine, Association of Ukrainian Banks, etc.

ATCI provided comments to the Government Strategy of Financial Sector Development in Ukraine. The document is aimed at ensuring sustainability, transparency and competitiveness of Ukrainian financial sector, in particular, of leasing market which was named one of the priority financial markets. ATCI emphasized the need for elimination of inconsistencies between various legal acts regulating leasing business, tax stimulation of the development of leasing as means of fixed assets acquisition and facilitation of access by leasing companies to long-term financing.

On March 12, findings of the Leasing Survey-2008 were presented. The survey was prepared by the Leasing Association and ATCI, and carried out by the State Commission for Regulation of Financial Services Markets. The research showed a 40% drop in new leases despite the fact that the number of lease contracts grew as compared to 2007; such situation was caused by financial crisis and reduction in the average size of lease transaction as many leasing companies started to work more intensively with individuals. Leasing portfolio increased by 30% as compared to 2007 at the same time decreasing by nearly UAH 1 billion just during the last quarter of 2008 due to the drop in new leases and overall halt in financing. The forecasts for the industry are quite pessimistic with the decline continuing throughout 2009 and key indicators dropping to the level of 2006; many independent and captive leasing companies will cease to operate while bank-owned leasing companies have some prospects provided their parent banks have good standing; those companies that will survive are likely to focus on smaller projects and working with SMEs and individuals.

Working on ensuring the sustainability of the NGO, ATCI held several meetings with the NGO Working Group during which the grant-seeking strategy was elaborated. It was decided to prepare three short applications with possible projects that might be of interest for potential donors, such as nationwide program of increasing the professional standards in leasing; facilitating the use of leasing in municipal programs (e.g. public transport, communal services) and raising the competitiveness of leasing companies (e.g. through risk management training).

On March 13, the next CLS training session began with 10 people. Initially, nearly 30 people enrolled for the training, but some of the companies failed to pay for it due to their difficult financial standing and most of the candidates could not afford to pay themselves. ATCI encouraged trainees from previous sessions who did not pass all 3 certification exams to re-take them during this exam session scheduled for April, 25-26. In particular, thanks to financial support of ATCI, the cost of exams for such people remains at the level of the previous year, that is, UAH 200 while this year's trainees will have to pay UAH 300 per exam.

In the end of March, one of the Certified Lease Specialists Ms. Galyna Riznyk, who is a director of audit and consulting company in Rivne (Western Ukraine), addressed ATCI suggesting holding of a seminar for potential lessees there with the support of the economic department of Rivne City Council. ATCI prepared and sent all the necessary presentations and other materials and provide guidelines on carrying-out such seminars while the seminar itself would be held using the resources of the City Council. Ms. Riznyk also expressed her interest in becoming a regional training provider of the CLS Program.

ATCI continued to monitor leasing activities of major foreign banks in Ukraine. Having analyzed their performance in 2008, ATCI determined that thanks to better access to financing leasing companies owned by those banks managed to increase not only their leasing portfolios (by 100% on the average) but also the amount of new leases (by 150% on the average) as compared to 2007. That allowed them to boost their market share from 30% in 2007 to 40% in 2008. Also, determined were specific features of work of such companies.

Work on drafting and editing of the Leasing Manual was finished and preparations for its publishing began. ATCI expects to initiate distribution of the Leasing Manual during the middle of the next quarter.

Credit Bureau/Credit Rating

Credit Bureau

ATCI continued to provide on-going consultancy to ensure compliance with international standards of best practice during the development phase of a credit reporting system, and to provide advice to the overall market with respect to data sharing and the reduction of data fragmentation. In addition, ATCI performed monitoring of the credit bureaus' problems in condition of crisis of the financial market.

IBCH has conducted research on the basis of personal databases of the credit histories. The share of the bad credits is 10.35 %. More than 30 % of the refusal by the banks-partners to issue loans is being based on information from the IBCH. A proportion of the bad credits for the individuals in Ukraine is about UAH 30 billions by approximations of the collection agencies.

Credit Rating

ATCI had agreed to partner with the UAIB in working to eliminate mandatory credit ratings. However, due to a lack of follow-up activities and actions by UAIB in this work and not acting according to their work plan, ATCI is looking for another partner to eliminate mandatory credit ratings as well as eliminating the use of national ratings scale.

SSMSC made amendments to the Rules of identifying ranking score on the basis of National rating scale by Authorized Credit Rating Agency (ACRA). It requires from ACRA to publish the ranking scores of the targeted bonds and its updating in the both official printing of SSMSC and mass media in the area of construction. The ranking scores and its updating of the targeted bonds' issuers must also be published.

Gender

Through the training activities of the CML and CLS programs developed by ATCI, to date there are a total of 208 certified mortgage (through CML) and leasing (through CLS) professionals in Ukraine; 102 (49%) are women.

Through similar training activities in Moldova via the ATCI project, to date there are a total of 131 certified mortgage and leasing professionals; 82 (63%) are women.

IV. PROJECT STAFFING – EXECUTIVE SUMMARY UKRAINE

The following personnel were engaged in project activities this quarter:

- Rick Dvorin, Chief of Party
- David C. M. Lucterhand, Senior Advisor
- Laszlo Buzas, AKK Consultant, Fixed Income
- Andras Rez, , AKK Consultant, Fixed Income
- Zsolt Bango, , AKK Consultant, Fixed Income

V. ADMINISTRATIVE ISSUES – EXECUTIVE SUMMARY UKRAINE

David Lucterhand, Chief of Party for ATCI since its inception more than 4 years ago, stepped down as COP and was replaced by the Deputy COP, Rick Dvorin. This took place immediately at the request of USAID through instructions from the home office of The Pragma Corporation in November. David Lucterhand left Ukraine at the end of January.

ATCI had received a waiver from USAID to employ AKK, The Debt Management Office of Hungary, as an advisor last quarter. AKK began its work with ATCI during this quarter.

LIST OF ATTACHMENTS

NONE

B. MORTGAGE - Ukraine

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 January 1 through March 31, 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 – MORTGAGE UKRAINE

- ATCI AND SMI AGREED ON ESTABLISHMENT OF A WORKING GROUP FOR PROMOTING SMI'S WORK WITH BANKS' MORTGAGE ASSETS AND PRESENTED A SCHEME THAT INVOLVED BANKS' MORTGAGE BONDS (**ATTACHMENT 1**)
- ATCI JOINTLY WITH UNIA HELD SEMINAR "STATE POLICY IN HOUSING FINANCING"
- SMI MORTGAGE BONDS INCLUDED IN THE LIST OF ELIGIBLE PLEDGES FOR NBU REFINANCING IN THE FIRST QUARTER OF 2009;
- SMI SCHEDULED ISSUANCE OF UAH150 MLN WORTH OF MORTGAGE BONDS AND UAH1 BN OF CABMIN GUARANTEED BONDS FOR 2009 IN ITS FINANCIAL PLAN ADOPTED IN THE FIRST QUARTER OF 2009
- STATE BUDGET LAW 2009 ASSIGNED UAH800 MILLION INCREASE OF OSCHADBANK AND UKREXIMBANK STATUTORY CAPITAL FOR THE PURPOSE OF MORTGAGE LENDING
- NBU ALLOWED BANKS TO IGNORE LOANS TO INDIVIDUALS RESTRUCTURING WHEN FORMING RESERVES ON LOSSES ON LOANS
- 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

- VERKHOVNA RADA ADOPTED AMENDMENTS TO THE LAW ON BANKS AND BANKING THAT PROHIBITED BANKS CHANGE INTEREST RATES ON LOANS AND DEPOSITS UNILATERALLY

- THE MINISTRY OF JUSTICE REVOKED ITS INTERPRETATION THAT PROHIBITED PRE-TRIAL FORECLOSURES BECAUSE ANTI-CRISIS LAW FOR CONSTRUCTION CAME INTO FORCE IN JANUARY 2009

- UKRGASBANK SUSPENDED ITS SUBSCRIPTION FOR MOODY'S AND FITCH RATINGS; NBU INTRODUCED CURATOR IN THE BANK

III. EXECUTIVE SUMMARY – MORTGAGE UKRAINE

Primary Mortgage Market

To date, CML-trained personnel now comprise one hundred thirteen certificate holders, fifty-four of whom (48%) are women. The number of banks whose personnel have been trained totals forty-four. ATCI and UNIA are planning for a revised and shortened CML training program to meet the needs of the market and to become sustainable as a program both technically and financially through UNIA. CML training will continue to be on a fee-paid basis, but with a shortened program, fees should be less.

All the participants came from banks. In order to make the CML designation more appealing, UNIA asked ATCI/IUE to prepare three additional lectures on risk management. Consequently, ATCI tasked IUE with the assignment adding an additional 16 days of LOE to their contract. IUE has developed the lectures now ready for presentation at the CML courses. Unfortunately, the scheduled CML training program for this quarter was cancelled due to lack of participation by prospective trainees.

In the face of the financial crisis, ATCI co-sponsored along with UNIA the seminar, "Estimation of losses from mortgage defaults according to Basel II", to provide some direction to banks issuing mortgages. The seminar helped raise awareness of financial institutions experts on the LGD (Loss Given Default) database development, and on fundamental concepts and regulations in the domain of risk management, in compliance with Basel II. The seminar was attended by financial institutions managers in charge of risk management strategies development, experts from the State Mortgage Institution, State Securities and Stock Market Commission, State Property Fund, Association of Appraisers, and representatives of the Association of German Banks.

Another seminar co-sponsored by ATCI and UNIA was held late in the reporting quarter. This seminar, "Government Policy in Housing Finance" aimed at raising awareness of Ukraine's mortgage market players about government support in the area of housing finance in the countries of Eastern and Western Europe. The seminar also presented the mechanisms and regulatory approaches to mortgage market finance in the conditions of the global economic crisis. Participants included leading Ukrainian banks involved in construction finance, Ukraine's Ministry of Regional Construction and Development, Construction Chamber of Ukraine, State Mortgage Institution, Ukrainian Construction Association, and leading construction companies,

ATCI conducted a meeting with Mr. S. Biryuk, Commissioner, SSMSC, and other heads of SSMSC departments to discuss the design and construction of a housing price index for use in calculating LTV requirements for mortgages used in secondary market issues. Both the SSMSC and ATCI agreed that UNIA's membership represented the best source of mortgage pricing to be used in construction of the index; SMI is part of UNIA's membership. Once completed, the SSMSC agreed to introduce legislation that

required use of the index for establishing LTV values. UNIA provided ATCI with pilot data for the index construction that it received from selected banks. ATCI requested UNIA to compliment the data with the number of the deals in the secondary market to be able to finish construction of the pilot index (see **Attachment 2**). To date, the index is still under construction awaiting more and complete information.

Secondary Mortgage Market

State Budget Law 2009 assigned UAH800 million contribution to the state's Oschadbank and Ukreximbank's statutory capital for the purpose of mortgage lending.

State Mortgage Institution (SMI)
SMI carries on preparation work for issuing mortgage bonds that is complicated by continuous organizational transformations of the Institution itself. SMI conducted negotiations with prospective bond managers and required constant advisory support in the issues that are complex for perception in the Ukrainian market. In particular, they needed help in resolving problematic issues of bond manager access to primary information on mortgage cover and using for this purpose audit agreed procedure.

SMI registered a mortgage covered bond issue of UAH 200 million in series A,B,C,D,E,F,G at the SSMSC and published the prospectus for the issue. The mortgage covered bonds of series A and G worth UAH 50 million were placed ahead of schedule and listed on PFTS Stock Exchange in the second tier. SMI plans to issue UAH 150 mln worth of mortgage bonds and UAH1bn worth of Cabmin guaranteed bonds in 2009 according to its financial plan adopted in the first quarter of 2009. SMI published prospectus of its UAH1 bn Cabmin guaranteed bond issue (see **Attachment 3**). Anti-crisis law no. 800 for Housing Sector and Residential Construction that, in particular, stipulates financing of housing through issuance of SMI mortgage bonds, came into force. ATCI jointly with UNIA held workshop "State Policy in Housing Financing, where representatives of Federal R&D Institute for Promotion of Development of Construction, Cities and Regions presented their report (see **Attachment 4).**

SMI selected the 2 state banks, Oshchadbank and Ukreximbank, as its back-up mortgage loan service banks.

SMI's Supervisory Board approved an UAH 200 million Mortgage Bond issue earlier in the year. SMI signed a Bond Manager's Agreement with Oshchadbank. In addition to already placed UAH 300 million worth of corporate bonds in accordance with the 2008 Budget law, SMI placed and listed on PFTS Stock Exchange UAH 700 million worth of corporate bonds guaranteed by the Cabinet of Ministers of Ukraine. SMI obtained Cabinet of Minister's UAH1 bn guarantee stipulated in Budget Law 2008 for issuing corporate bonds in 2009. NBU allowed SMI bonds with the Cabinet of Ministers' guarantee to be used for Repo operations and included both SMI guaranteed and mortgage bonds in the list of eligible pledges for NBU refinancing for the first quarter of 2009.

Pilot Issues

Khreschatyk registered the UAH 70 million mortgage bond issue at the SSMSC, published the Prospectus and started placement of the bond. The bond was successfully placed and listed on PFTS stock exchange in December 2008. In January, 2009, SSMSC cancelled registration of the issue on the issuer application. The implication of this for market development and testing of the legal framework was positive, because it was for the first time when mortgage bonds were successfully redeemed and the first time when redeemed early.

ATCI continued its work on draft amendments to the Mortgage Bond Law. Jointly with the Audit Task Force under the SSMSC, ATCI submitted draft amendments regarding agreed upon procedures to the SSMSC's 1528 Regulation on Audit Reports. 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.

The draft amendments to the Mortgage Bond Law were introduced to Verkhovna Rada and forwarded for consideration of the Committee on Finance and Banking. The Committee on Finance and Banking submitted a draft Resolution on adopting the draft amendments to the Mortgage Bond Law in the first reading to Verkhovna Rada. The promotion of adopting the amendments to Mortgage Bonds Law was included in the Cabinet of Ministers' Anti-crisis Program of Activities for 2009. Verkhovna Rada declined the amendments.

Associated Market Infrastructure

Life Insurance Products

In past quarters, ATCI conducted a survey and analyzed mortgage-related life insurance within the associated infrastructure for goals to protect and to aid (prospective) homeowners. ATCI conducted research polling 20 of the largest mortgage lending banks in order to determine what type (if any) of term life insurance they use. The analysis showed that term-life insurance is offered in 8 banks of the 20 banks polled. Based on this analysis, ATCI concluded that term-Life Insurance is already developed in the market, but is not yet fully offered through the mortgage companies.

Appraisal and Real Estate Associations

ATCI completed the translation of the text book on international standards of appraisal; the book will be used as the main course material as well examination basis for appraisers. UTO is currently compiling exam questions for IVS certification.

An emergency meeting of the membership of the Ukrainian Association of Appraisers (UTO) and State Property Fund was held in October, to address measures included in the Commodity Exchange Law that removed UTO's and the State Property Fund's ability to set standards for the profession. More than 750 interested persons attended including members of the Rada. The legislation was an attempt by persons and entities to usurp authority for the licensing and certification of appraisers from UTO and the State Property Fund. At its conclusion, members of the Rada and the Ministry of Justice that was present promised that the law in this form would never be approved. Representatives of the League of Land Appraisers, the Union of Land Appraisers, The Union of Auditors, Association of Tax Consultants, the Union of Court Appraisers, Association of Appraisal Specialists (a competing organization to UTO association, Federation of Employers, State Property Fund, Cabinet of Ministers, Ministry of Justice, International Chamber of Trade and Industry, Ukrainian Realtors Association, Ukrainian Guild of Realtors were all present.

ATCI brought in Norm Flynn, President of the International Real Property Foundation, during November after Norm visited and worked with the ATCI Moldova project. Among other events and activities, Norm held meetings to discuss the merger between the two largest real estate organizations in Ukraine with the objective of achieving common platform for certification and a common position on a licensing law for real estate practitioners. Norm also conducted meetings to further the development of the multiple listing services for Ukraine. A copy of Norm Flynn's report was included as an attachment to the Quarterly Report No. 17.

ATCI expects Norm Flynn to return to Ukraine in the coming quarter for further efforts in completing the merger between the real estate associations and in finalizing appraisal course work. In addition, the IRPF and ATCI are considering assisting the Ukrainian Real Estate Association develop a single Ukrainian data base of completed real estate transactions. The database would serve to provide information on the real

estate market, to stimulate transparency, to optimize business processes, to assist in developing a qualitative marketing strategy, and contribute to the analysis of the Ukrainian real estate market competitiveness.

IV. ADMINISTRATIVE ISSUES – MORTGAGE UKRAINE

NONE

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	• COMPLETED IN EARLIER QUARTER
7. Deliver one SMI course.	• COMPLETED IN EARLIER QUARTER
8. Deliver three regional CML courses for SSMSC	• COMPLETED IN EARLIER QUARTER
9. Select training provider	• COMPLETED
10. Monitor training provider	• COMPLETED
11. Conduct CML courses through training provider	• CML COURSES CONDUCTED ON FEE BASIS THROUGH TRAINING PROVIDER • NEXT COURSE SCHEDULED AT THE LATTER PART OF NEXT QUARTER, PERHAPS OFFERED FOR 3+ DAYS RATHER THAN 5, TO MEET NEEDS OF THE MARKET
12. Assist UNIA to become sustainable	• ATCI AND UNIA DISCUSS BUDGET; UNIA BUDGET SUBMITTED TO ATCI FOR CONSIDERATION; ATCI TO COMMIT TO FINANCIAL PARTIAL SUPPORT FOR UNIA UNTIL MID-2009 • DUE TO FINANCIAL CRISIS, UNIA IS LOSING MEMBERS; MEMBERSHIP IS THE PRIME INCOME SOURCE; THEREFORE UNIA NOW LOOKING AT LESS COSTLY OFFICE SPACE AND POSSIBLE CUTS IN STAFF • ATCI JOINTLY WITH UNIA HELD SEMINAR "STATE POLICY IN HOUSING FINANCING"

13. Assist SMI to become an operational liquidity facility	• SMI PLACED UAH 700 MLN WORTH OF BONDS GUARANTEED BY THE CABINET OF MINISTERS OF UKRAINE. • SMI SELECTED THE 2 STATE BANKS , OSHCHADBANK AND UKREXIMBANK, AS ITS BACK-UP MORTGAGE LOAN SERVICE BANKS • THE FSR MADE AMENDMENTS TO THE "REGULATION ON CRITERIA AND FINANCIAL NORMATIVES OF CAPITAL ADEQUACY OF CREDIT INSTITUTIONS" THAT CHANGED WEIGHT OF MORTGAGES ON ITS BALANCE SHEET FROM 100% TO 20% WHEN CALCULATING RISK WEIGHTED ASSETS FOR THE PURPOSE OF CAPITAL ADEQUACY RATIO CALCULATION • ATCI AND SMI AGREED ON ESTABLISHMENT OF A WORKING GROUP FOR PROMOTING SMI'S WORK WITH BANKS' MORTGAGE ASSETS AND PRESENTED A SCHEME THAT INVOLVED BANKS' MORTGAGE BONDS • SMI MORTGAGE BONDS HAVE BEEN INCLUDED IN THE LIST OF ELIGIBLE PLEDGES FOR NBU REFINANCING IN THE FIRST QUARTER OF 2009; • SMI SCHEDULED ISSUANCE OF UAH150 MLN WORTH OF MORTGAGE BONDS AND UAH1 BN OF CABMIN GUARANTEED BONDS FOR 2009 IN ITS FINANCIAL PLAN ADOPTED IN THE FIRST QUARTER OF 2009

B. Assistance to Banks

1. Standardize rules and procedures for retail mortgage lending in Ukraine	• COMPLETED IN EARLIER QUARTER
2. Select candidate banks and financial institutions for on-site assistance	• COMPLETED IN EARLIER QUARTER
3. Provide on-site technical assistance	• BRIEFED AND TRANSFERRED TO RAIFFEISENBANK AVAL /UKRAINE ATCI MATERIALS ON MORTGAGE BOND ISSUANCE. MET WITH THE BANK SENIOR MANAGEMENT ON THE SUBJECT; BANK DECIDED TO POSTPONE ISSUE DUE TO MARKET • UKRGASBANK MORTGAGE BONDS WERE INCLUDED IN THE SECOND TIER OF THE PFTS STOCK EXCHANGE. • EBRD APPROVED REFINANCING OF UKRSOTSBANK AND RAIFFEISENBANK AVAL MORTGAGE LOAN PROGRAMS IN TOTAL OF USD190 MLN

C. Home Loan Guarantee (Completed)

1. Analyze market for existing mortgage insurance practice	• NO ACTIVITY ON THIS ISSUE.
2. Sources government sponsor	• NO ACTIVITY ON THIS ISSUE.
3. Assess legal and regulatory framework	• NO ACTIVITY ON THIS ISSUE.
4. Complete feasibility study	• NO ACTIVITY ON THIS ISSUE.
5. Complete business plan	• NO ACTIVITY ON THIS ISSUE.
6. Assist in operational set-up of guarantee facility	• NO ACTIVITY ON THIS ISSUE.
a) Draft master policy	• NO ACTIVITY ON THIS ISSUE.
b) Determine actuarially sound rates and draft rate table	• NO ACTIVITY ON THIS ISSUE.
c) Complete operational forms	• NO ACTIVITY ON THIS ISSUE.
d) Complete organizational planning	• NO ACTIVITY ON THIS ISSUE.
7. Provide on-site technical assistance to facility	• NO ACTIVITY ON THIS ISSUE.
8. Promote the use of private mortgage insurance	• NO ACTIVITY ON THIS ISSUE.

D. Life Insurance Products (Completed)

1. Analyze insurance and mortgage markets for existing products/practices	• ANALYZED MORTGAGE MARKET FOR EXISTING TERM-LIFE INSURANCE PRODUCTS/PRACTICES
2. Assess legal and regulatory framework	• 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)	• CONDUCTED RESEARCH (POLLING) OF 20 LARGEST MORTGAGE LENDING BANKS IN ORDER TO FIND OUT WHAT TYPE OF INSURANCE (IF ANY) THEY USE; • ATCI CO-SPONSORED A ROUND TABLE WITH UNIA, PRESENTING RESULTS TO ENCOURAGE MORTGAGE COMPANIES TO REQUIRE OR AT LEAST OFFER MORTGAGE-RELATED LIFE INSURANCE
4. Assess existing actuarial data (mortality tables)	• THE STATE STATISTICS COMMITTEE OF UKRAINE PUBLISHED ITS UPDATE OF MORTALITY TABLES FOR 2006-2007 AT THE END OF JUNE. THE STATE STATISTICS COMMITTEE OF UKRAINE AGREED TO PROVIDE THE DATA ON THE OFFICIAL REQUEST FROM ATCI.
5. Select candidate insurers	N/A
6. Develop term sheet and rate structure	N/A
7. Draft product policy	N/A
8. Conduct road show with mortgage lending banks and financial institutions	N/A
9. Launch product	N/A

E. Appraisers/Brokers Associations

1. Needs assessment of UAR and appraisal organizations	• 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)	• NORM FLYNN MET WITH REAL ESTATE ASSOCIATIONS TO FURTHER CEMENT TIES FOR MERGER • FURTHER WORK IN THIS AREA IS EXPECTED WITH NORM FLYNN'S VISIT NEXT QUARTER
3. Work with UAREP and UARC on adapting Russian Guild of Realtors' training or other appropriate standards	• N/A THIS QUARTER
4. Adapt and implement IVSC standards for appraisers through Ukrainian Association of Appraisers (UTO)	• IDENTIFIED THE DEPARTMENT IN THE MINISTRY OF FINANCE RESPONSIBLE FOR DRAFTING REAL ESTATE APPRAISING STANDARDS AND PROVIDED UTO WITH THE CONTACTS FOR FURTHER COLLABORATION • EMERGENCY MEETING HELD BY MEMBERS OF UTO AND STATE PROPERTY FUND TO ADDRESS KEEPING AUTHORITY OF THESE ORGANIZATIONS FOR THEIR ABILITIES TO SET STANDARDS FOR THE PROFESSION. • COMPLETING TRASLATION OF APPRAISAL BOOK TO FORM BASIS FOR APPRAISERS COURSE AND EXAMS NEARLY COMPLETED
5. Organize study tours if appropriate	• NO ACTIVITY ON THIS ISSUE.
6. Price transaction database - establish multiple listing service (MLS)	• THE IRPF AND ATCI CONSIDERING ASSISTING THE URA IN THE DEVELOPMENT OF A SINGLE UKRAINIAN DATA BASE OF COMPLETED REAL ESTATE TRANSACTIONS

F. Mortgage-backed Securities

1. Establish Legal Working Group to assess legal basis and regulatory framework	• ESTABLISHED LEGAL WORKING GROUP JOINTLY WITH THE AUDIT TASK FORCE UNDER THE SSMSC AND ATCI
a) Pledge Law--multiple pledgees	COMPLETED
b) Bankruptcy Statutes--pledge excluded from bankruptcy estate	COMPLETED
c) Trust Law--bondholder representative	• SUBMITTED DRAFT AMENDMENTS REGARDING AGREED UPON PROCEDURES TO THE SSMSC 1528 REGULATION ON AUDIT REPORTS • 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)	• COMPLETED IN EARLIER QUARTER
3. Draft and introduce new amendments to covered bond law	• THE COMMITTEE ON FINANCE AND BANKING SUBMITTED DRAFT RESOLUTION ON ADOPTING THE DRAFT AMENDMENTS TO THE MORTGAGE BOND LAW IN THE FIRST READING TO VERKHOVNA RADA • MORTGAGE BOND LAW AMENDMENTS

	PROMOTED IN THE CABINET OF MINISTERS' ANTI-CRISIS PROGRAM OF ACTIVITIES FOR 2009
4. Conduct educational seminars on covered bonds and adoption of amendments	• ATCI PRESENTED ESSENTIAL DIFFERENCES BETWEEN MORTGAGE-BACKED SECURITIES AND COVERED BONDS FOR UAIB
6. Develop standardized indenture	• N/A
7. Draft investment memorandum	• N/A
8. Registration and Listing	• N/A
9. Identify potential investors	• ATCI CONTINUED TO IDENTIFY POTENTIAL INVESTORS
10. Conduct "road show"	• N/A
11. Price and place issue	• N/A
12. Convey issuance technology through educational seminars / articles / media event	• N/A

LIST OF ATTACHMENTS

ATTACHMENT 1: SMI Bond Issuance Scheme proposed by ATCI

ATTACHMENT 2: Real Estate Pricing Index Data

ATTACHMENT 3: SMI UAH1 bn Cabmin Guaranteed Bond Issue Prospectus

ATTACHMENT 4: Presentation "Promotion of Housing Construction in Germany" – Workshop "State Policy in Housing Financing", March 4, 2009

C. FIXED INCOME – Ukraine

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 January 1 through March 31, 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 AND ACHIEVEMENTS – FIXED INCOME UKRAINE

- CABMIN ADOPTED THE INSTRUCTION ON APPROVAL OF THE CONCEPT OF THE DOMESTIC GOVERNMENT BOND MARKET DEVELOPMENT FOR 2009 – 2013 (**ATTACHMENT 5**) WHICH WAS DRAFTED WITH ATCI ASSISTANCE MORE THAN 2 YEARS AGO

- ATCI EMPLOYS AKK, HUNGARIAN DEBT MANAGEMENT AGENCY, TO ASSIST MINFIN IN DEVELOPMENT OF DOMESTIC GOVERNMENT BOND MARKET; ATCI JOINTLY WITH AKK DEVELOPS PROPOSALS FOR DEVELOPMENT OF THE DOMESTIC GOVERNMENT BOND MARKET, PROPOSES THE ESTABLISHMENT OF PRIMARY DEALER SYSTEM AND LAUNCH OF MOF'S REVERSE REPO TRANSACTIONS IN THE GOVERNMENT BOND MARKET

- ATCI ALONG WITH AKK MEETS OFFICIALS AND EXECUTIVES FROM THE NBU, PROSPECTIVE PRIMARY DEALERS (I.E., COMMERCIAL BANKS), ASSOCIATION OF UKRAINIAN BANKS, INSTITUTIONAL INVESTORS (STATE DEPOSIT GUARANTEE FUND, NON-GOVERNMENTAL PENSION FUNDS, INSURANCE COMPANIES), STOCK EXCHANGES, DISCUSSING THE ISSUES OF THE DEVELOPMENT OF GOVERNMENT BOND MARKET

- AKK WITH ATCI MAKES FORMAL PRESENTATIONS TO FIRST DEPUTY MINISTER OF FINANCE UMANSKYI AND DEPUTY MINISTER OF FINANCE KRAVETS (BASED ON FINDINGS OF MEETINGS ABOVE) DESCRIBING (1) THE CURRENT SITUATION IN UKRAINE OF THE GOVERNMENT BOND MARKET AND (2) PROBLEMS AND BARRIORS ALONG WITH POSSIBLE SOLUTIONS BASED ON INTERNATIONAL BEST PRACTICES WITHIN THE UKRAINIAN ENVIRONMENT

- ATCI SENIOR MANAGEMENT MEETS MAX ALIER, THE IMF RESIDENT REPRESENTATIVE IN UKRAINE, AND DISCUSS THE PROBLEMS OF THE GOVERNMENT BOND MARKET DEVELOPMENT WITH POSSIBLE SOLUTIONS

- ATCI PRESENTS MOF WITH THE DRAFT PROCEDURE OF MOF'S REVERSE REPO TRANSACTIONS WITH THE GOVERNMENT SECURITIES IN LINE WITH RESPECTIVE BUDGET 2009 LAW ARTICLE 18 (**ATTACHMENT 6**)

- ATCI PRESENTS MOF WITH THE DRAFT RESOLUTION ON PRIMARY DEALERS (**ATTACHMENT 7**), DRAFT PROCEDURE FOR SELECTION OF PRIMARY DEALERS (**ATTACHMENT 8**), AND DRAFT STANDARD AGREEMENT ON SUPPORTING GOVERNMENT BOND MARKET (**ATTACHMENT 9**)

- ATCI PROMOTES STRATEGY FOR UKRAINIAN CITY COUNCILS REGARDING PLACEMENT OF EXCESS TREASURY BALANCES PLEDGED WITH COLLATERAL OF MUNICIPAL BONDS AND DOMESTIC GOVERNMENT BONDS; ATCI INVITES THE PILOT CITIES AND THE CITIES THAT ANNOUNCED ABOUT PLANS TO ISSUE BONDS IN 2009 TO ADDRESS MOF WITH INITIATIVE TO ALLOW PLACEMENT OF MUNICIPAL INTEREST BEARING BONDS BELOW PAR; IN COOPERATION WITH THE INSTITUTE FOR BUDGETARY AND SOCIAL AND ECONOMIC RESEARCH, ATCI DRAFTED AMENDMENTS TO THE CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS, WHICH ALLOW PLACEMENT OF MUNICIPAL BONDS BELOW PAR, IF THOSE BONDS ARE PLACED PUBLICLY AT A STOCK EXCHANGE (SEE **ATTACHMENT 10**)

- ATCI ASSESSES FACTORS WHICH IMPEDE DEVELOPMENT OF DOMESTIC BOND MARKET; PROMOTES AMENDMENTS TO DOMESTIC BOND PLACEMENT PROCEDURES THROUGH ITS CONTACT IN ODESA CITY COUNCIL (**ATTACHMENT 11**)

- ATCI JOINTLY WITH THE INSTITUTE FOR BUDGETARY AND SOCIO-ECONOMIC RESEARCH (IBSER) DEVELOPED AMENDMENTS TO THE BUDGET CODE REGARDING PRECONDITIONS OF ESTABLISHMENT OF DOMESTIC GOVERNMENT BONDS PRIMARY DEALER SYSTEM, REPO TRANSACTIONS, PRIVATE PUBLIC PARTNERSHIP

EXTERNAL EVENTS:

- STATE BUDGET LAW 2009 ENVISAGES UAH70 BN DOMESTIC GOVERNMENT BOND ISSUANCE PROGRAM
- MR. LYTVYN WAS REPLACED BY MR. KRAVETS AS DEPUTY MINISTER OF FINANCE IN CHARGE OF PUBLIC DEBT AT THE MOF
- NBU BOUGHT UAH10 BN WORTH OF DOMESTIC GOVERNMENT BONDS FROM BANKS IN THE FIRST QUARTER OF 2009, MOST LIKELY FROM STATE OWNED FINANCIAL INSTITUTIONS, AND HAS ACCUMULATED 52% OF THE GOVERNMENT BONDS OUTSTANDING BY THE END OF THE FIRST QUARTER OF 2009 (**ATTACHMENT 12**)
- MINFIN PUBLISHED BOND PLACEMENT SCHEDULE FOR THE FIRST HALF OF 2009 WITH MATURITIES SPREAD EVENLY FROM 3 MONTHS TO 10 YEARS. (ATTACHMENT 13)
- NBU WITHDRAWS PROVISIONAL ADMINISTRATION (PA) FROM PROMINVESTBANK AND INTRODUCED THE ADMINISTRATIONS IN 10 OTHER LOCAL BANKS ADMINISTRATING APPROXIMATELY 7% OF THE SYSTEM BY ASSETS. CURATOR (USUALLY A PRECURSOR TO PA) WAS INTRODUCED IN UKRGASBANK.

III. EXECUTIVE SUMMARY – FIXED INCOME UKRAINE

ATCI began to concentrate on developing a long-term government yield curve for Ukraine in winter 2006 when trying to price the pilot Ukrgasbank covered bond issue without pricing reference (government yield curve). ATCI approached the MOF to gauge their interest in cooperating with ATCI to host a high level debt management forum for senior leadership. The Forum was designed to explore what steps the Government of Ukraine should take to manage its debt requirements efficiently; to examine the role *domestic* government debt markets play in efficient capital allocation; to analyze the institutional framework requisite for market development such as the role of primary dealers, use of pre-announced auction calendars; development of a debt management strategy; mitigation of risk in debt management, establishing a debt management office (DMO) and comparisons of how debt management offices (DMOs) are organized and work in other countries. In sum, the Forum was to analyze what has worked in other countries facing similar circumstances and what has not. Subsequently, the Forum took place in March 2007 and explored the practical aspects of formulating a debt management strategy and necessary elements for successful development of the primary and secondary market in government securities; the use and role of re-purchase agreements in contributing to market liquidity; and what changes to the legal framework might be necessary for use by senior leadership when framing policy choices for adopting a plan of action that leads toward development of a liquid domestic Government securities market in Ukraine. However, a few months after the Forum took place, the government changed at the ministerial and deputy level but not at the departmental level. At that time, new Deputy Minister Lytvyn supported the idea and the move towards market pricing. Subsequently, he suggested meeting informally on Saturdays (meditation sessions) to explore more fully the issues related to development of the treasury market and how best to proceed. The sessions first began February 2, 2008 and continued through the fall of 2008.

Much discussion in these informal meetings had centered on how to reduce the cost of issuing at market when the Government is running a budgetary surplus and does not need the money. Any money raised is subsequently deposited in the Single Treasury Account (STA) administered by the NBU. However, by law, the NBU is not allowed to pay interest on money held in the STA in the name of the MOF. Therefore, if government securities are issued at market, the MOF has no offsetting income to show that blunts the cost of market issuance. In developed economies this is not a problem for two reasons: first, issuance of government securities is always conducted at market and second, since the government is all one pocket, interest earned by the central bank offsets its cost of issuance. In Ukraine, however, the issue is a political one. Currently, issuance is conducted using a pre-set issuance rate that is substantially below market. Any move to market rates would be expensive for the MOF and the present minister is not inclined to move to market unless there is some way for the MOF to show income that significantly reduces to cost of issuance to 1% or less.

The way to show income is for the MOF to conduct reverse repo transactions by putting the money it raises at market prices back into the banking system. Unfortunately, this encroaches on the NBU's mandate to conduct monetary policy and interferes with NBU liquidity management. Consequently, the Saturday Committee members suggested a meeting with the NBU to discuss the situation and to explore if there might be a way to circumvent the legislative restriction of paying interest income. The meeting did not yield specific results but the NBU leadership did acknowledge that something might be done. During one of the Saturday sessions after the NBU - MOF meeting, one of the members floated the idea of a liquidity facility managed by the NBU that could pay fees to the MOF as one way to show income against the costs of borrowing at market. The idea was subsequently run by the NBU and informally agreed to but implementation of the agreement is to be determined. Another scenario under

consideration is one in which the Ministry of Finance places its excess balance within the State Treasury Account with banks that, in turn, pledge Treasury securities with the NBU. In case of a failure to repay, the treasuries would be sold to repay the MOF. This procedure would be a preliminary step for the MOF to earn interest income that can be used to offset the cost of selling treasuries at market. This is also driven by a need to smooth the large seasonal spike in excess balances that the MOF receives for corporate income tax payments (draining liquidity form the banking system) allowing money to be put back into the banking system. The MOF supports the need for coordination with the NBU since such actions could adversely impact the NBU's ability to conduct monetary policy.

ATCI presented redrafted amendments to Budget Law 2009 introducing scheduled and regular bond auctions, Primary Dealer system, and allowing repo/reverse repos (see **Attachment 14**); ATCI draft version of Law on Public Debt.

ATCI continued to be active in the reform and development of the domestic government bond market, which has assumed even greater importance with the global financial crisis and economical crisis affecting Ukraine. To assist the MoF, ATCI redrafted and submitted to it the draft order on "The open tender selection of the government bond temporary purchase agreement counterparties to MoF of Ukraine. ATCI developed the draft amendments to the Budget Code of Ukraine which stipulates the main preconditions of such reform (see **Attachment 15)**; introduction of primary dealer system; and development of the REPO market.

In order to assist the MOF in these developments of the domestic government bond and repo markets, ATCI employed the technical assistance of AKK, the Debt Management Agency of Hungary. Their key professionals have had prior experience working in Ukraine and working with the MOF of Ukraine as well**.** AKK work with ATCI in Ukraine began in January 2009. ATCI arranged meetings for AKK with many of the key counterparts and participants in the government bond market, attended these meetings, and also attended and contributed in presentations to the Deputy Ministers of Finance. Presentations focused on the findings of the AKK team along with making recommendations as to what is needed for development of the domestic government bond market in Ukraine. Among the findings of AKK regarding the current situation in Ukraine:

- In the last couple of years in particular, most of the financing came from external sources in foreign currency (exposing the government to exchange rate and refinancing risks);
- With the devaluation of the UAH, risks have been realized;
- There is a lack of foreign participation in Ukraine, due to global financial crisis, etc.;
- There is an underdeveloped institutional investor base in Ukraine, i.e., lack of insurance companies, pension and investment funds;
- Households have no confidence in banks, government, etc.;
- Banks do not have necessary liquidity to invest; and
- No primary price guidance due to lack of auctions at market rates.

Among the possible solutions and other recommendations, AKK states:

- Auctions to be held using Market Pricing;
- Set up the Primary Dealer system, minimum 6 and maximum 16 PDs;
- Start with short maturities in small amounts;
- Select maturities according to market demand;
- Issue domestic government securities to attract domestic savings and 'mattress money';

- Develop other segments of the financial market, e.g., mutual and pension funds; insurance companies, to create demand for government securities; and
- Set up an investor relations department within the MOF to improve international and domestic perceptions of the government securities market.

To assist the MOF in developing the domestic government bond market, ATCI has continued to draft many documents including draft procedures on reverse repurchase (repo) transactions; draft resolution on Primary Dealers; draft procedure on selection of PDs; and draft standard agreement between the MOF and PDs.

A key meeting set up by ATCI was held with AKK and First Deputy Minister of Finance Umanskyi. The AKK experts along with ATCI key staff focused on the implementation of the Primary Dealer System, including the procedure for selection of primary dealers and their market making activities, and on the amendments to the relevant draft law on public debt and draft resolution on primary dealers, with purpose to kick start the development of the domestic government bond market at market prices.

A subsequent meeting and presentation was held with Deputy Minister of Finance Kravets, discussing the summary of findings and recommendations developed by the AKK experts regarding the needs for further development of the domestic government bond market. Mr. Kravets agreed with the findings and the need to start pilot issuance of domestic government bonds; ATCI provided a plan for the pilot issuance program to Mr. Kravets, which awaits his approval.

ATCI organized a meeting with Max Alier, Resident IMF Representative, discussing the status of the development of the domestic government bond market with to gain additional support. Discussed were the current state of the government securities market in Ukraine and the bottlenecks in its development; Mr. Alier agreed that the Ministry of Finance should adopt market rates and implement one-stage auctions, use repo tools, and he supported this market advancement by means of market-making services and primary market operations.

On March 25th, 2009, the Cabinet of Ministers of Ukraine adopted the Instruction on Approval of the Concept of the Domestic Government Bond Market Development for 2009 – 2013 that encompassed most of the recommendations provided by the ATCI/AKK. ATCI assisted in the original drafting of this Concept more than 2 years ago.

While promoting Odesa City Council's placement of the excessive treasury balances pledged with collateral of Odesa municipal bonds, ATCI found that according to SSMSC Resolution No. 414 it is prohibited to place interest bearing municipal bonds below par. Since capital markets have become much more volatile in the financial crisis such prohibition impedes the development of domestic bond market. ATCI applied to the SSMSC to consider the possibility of introducing changes to the Resolution stipulating a possibility of primary placement of municipal bonds below par, provided those are placed publicly at a stock exchange.

ATCI participated in the PTAP mission held in January 2009, meeting with the World Bank, the USAID-funded Capital Markets Project, and various potential primary dealers and counterparts for assistance in the development of the Government Bond Market.

IV. ADMINISTRATIVE ISSUES – FIXED INCOME UKRAINE

ATCI retains the Debt Management Agency of Hungary (AKK) as Advisor to the MOF on essential aspects for establishment of domestic government securities market.

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	• COMPLETED
2. Present round table with Association of Investment Businesses to eliminate mandatory credit ratings	• ATCI PARTNERS WITH THE UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS (ULIE) ON THE ELIMINATION OF MANDATORY CREDIT RATINGS • ATCI AND ULIE HOLD ROUNDTABLE ON THE ELIMINATION OF MANDATORY CREDIT RATINGS
3. Draft regulations on rating agencies	• ATCI DRAFTS CREDIT RATING LAW AND AMENDMENTS TO OTHER LAWS EFFECTED BY ELIMINATION OF MANDATORY CREDIT RATINGS (SEE DRAFT CREDIT RATING LAW IN MUNI COMPONENT SECTION AS ATTACHMENT)
4. Participate in the working groups to amend pledge and bankruptcy laws / draft legislation to enable the use of trust	COMPLETED

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

1. Asses status of Treasury debt market and impediment to development	• CABMIN ADOPTED THE INSTRUCTION ON APPROVAL OF THE CONCEPT OF THE DOMESTIC GOVERNMENT BOND MARKET DEVELOPMENT FOR 2009 – 2013 (ATTACHMENT 2) WHICH WAS DRAFTED WITH ATCI ASSISTANCE MORE THAN 2 YEARS AGO • 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 1H2009 ISSUANCE SCHEDULE), ANNOUNCEMENTS ON YIELD AND DURATION POLICIES, DEBT MANAGEMENT STRATEGY, INTRODUCTION OF THE PRIMARY DEALER SYSTEM). • STANDARD AND POOR'S DECREASED UKRAINE'S LONG-TERM FOREIGN CURRENCY OBLIGATIONS RATING FROM TO CCC+. • MOODY'S PUTS UKRAINE'S KEY RATINGS ON REVIEW FOR POSSIBLE DOWNGRADE. • FITCH DOWNGRADED UKRAINE'S LONG-TERM FOREIGN AND LOCAL CURRENCY ISSUER DEFAULT RATINGS TO B FROM B+ • IMF DELAYED THE SECOND STAND-BY TRANCHE FOR UKRAINE INITIALLY SCHEDULED TO BE DISBURSED IN MID-FEBRUARY 2009 AND SUSPENDED WORK OF ITS MISSION IN UKRAINE

	BECAUSE OF UKRAINE'S INCOMPLIANCE WITH BUDGET DEFICIT LIMIT AGREED UPON IN THE MEMORANDUM WITH THE IMF.
a) Propose structure for development of Government Securities market	• CONTINUED MONITORING GOVERNMENT AND NBU POLICIES AND REGULATIONS ON CHANGES IN THE POLICY OF DEVELOPING FINANCIAL MARKETS. • ATCI DEVELOPED THE DRAFT LAW ON PUBLIC DEBT WHICH STIPULATES THE MAIN PRECONDITIONS OF SUCH REFORM - INTRODUCTION OF PRIMARY DEALER SYSTEM AND REPO MARKET • ATCI DEVELOPED PROCEDURES FOR MOF IN SELECTING PRIMARY DEALERS TAKING INTO ACCOUNT AKK'S RECOMMENDATIONS • AKK PRESENTS TO MOF FINDINGS OF CURRENT SITUATION IN UKRAINE RE PROBLEMS IN GOVT SECURITITIES MARKET; AND PRESENTS RECOMMENDATIONS FOR DEVELOPMENT OF DOMESTIC GOVT BOND MARKET WITH POSSIBLE SOLUTIONS TO EXISTING PROBLEMS • AKK WILL PRESENT FINAL REPORT NEXT QUARTER WHICH WILL INCLUDE A TIME SENSITIVE ACTION PLAN • ATCI CONSIDERS HIRING ANOTHER INTERNATIONAL EXPERT SENIOR ADIVSOR TO WORK WITH ATCI TEAM AND MOF IN DEVELOPMENT OF GOVT SECURITIES MARKET, TO BRING ON BOARD EARLY NEXT QUARTER
b) Propose benchmark issues for construction of medium and long term Yield Curve	• CONTINUED MONITORING VOLUMES AND TERM STRUCTURE OF OUTSTANDING STOCK EXCHANGE-LISTED ISSUES OF THE GOVERNMENT SECURITIES • CONTINUED MONITORING LISTING STATUS OF THE GOVERNMENT SECURITIES IN CIRCULATION.
c) Expand investor base in Government Securities	• 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, INVESTOR'S GUARANTEE FUND) • SSMSC PUBLISHED DRAFT LAW ON INVESTMENTS FOR GUARANTEE FUND
2. Assist in design of a functioning primary dealer and repo market	• ATCI DEVELOPED PROCEDURES AND LEGISLATION RE: ESTABLISHMENT OF A YIELD CURVE, REGULAR ISSUANCES AT PRE-ANNOUNCED INTERVALS OF GOVERNMENT DEBT SECURITIES AT MARKET PRICES; DEVELOPMENT OF REPO/REVERSE REPO MARKET ALONG WITH PRIMARY DEALERS • ATCI DEVELOPED AND FORWARDED RESPECTIVE AMENDMENTS TO THE BUDGET CODE OF UKRAINE TO VERKHOVNA RADA (**ATTACHMENT 8**)

a) Prepare standard rules for repo market activities including standardized repo agreement	• ATCI HIRED HUNGARIAN DEBT MANAGEMENT AGENCY (AKK) AND UTILIZED STTA EXPERT IN DEVELOPMENT OF REPO/REVERSE REPO MARKET AND ESTABLISHMENT OF PRIMARY DEALERS NEXT QUARTER
b) Design REPO and reverse REPO market	• SEE ABOVE • ATCI SUBMITTED TO MOF THE REVISED DRAFT ORDER ON THE OPEN TENDER SELECTION OF THE GOVERNMENT BOND TEMPORARY PURCHASE AGREEMENT COUNTERPARTIES TO MOF OF UKRAINE
c) Define activities of Primary Dealers	• ATCI REVISED DRAFT CABMIN'S RESOLUTION ON INTRODUCTION OF PRIMARY DEALER SYSTEM TAKING INTO ACCOUNT AKK'S RECOMMENDATIONS
d) Development of dealer institutional framework	• SEE ABOVE; ATCI REVISED PRIMARY DEALER AGREEMENT WHICH CONTAINS OBLIGATIONS FOR PDS • UKRAINIAN EXCHANGE LAUNCHED INTERNET TRADING FOR INDIVIDUALS, FIRST IN UKRAINE, IN MOST LIQUID UKRAINIAN STOCKS; THE EXCHANGE'S MANAGEMENT CONSIDERS THE POSSIBILITY OF FACILITATING TRADING IN GOVERNMENT AND MUNICIPAL BONDS

LIST OF ATTACHMENTS

ATTACHMENT 5: Concept for Development of the Domestic Market of Government Securities of Ukraine for 2009–2013

ATTACHMENT 6: Procedure for Purchase of Domestic Government Bonds Simultaneously Assuming an Obligation to Sell Them (Draft CM Resolution on Reverse Repo 09 March 2009)

ATTACHMENT 7: Resolution On Primary Dealers of Government Securities

ATTACHMENT 8: Procedure for Selection of Primary Dealers of Government Securities

ATTACHMENT 9 : Standard Agreement on Supporting Government Bond Market (PD)

ATTACHMENT 10: Draft Cabmin Resolution 207 Amendments and Justification

ATTACHMENT 11: AUCC Letter regarding Amendments to Domestic Bond Placement Procedures

ATTACHMENT 12: Domestic Government Bonds Outstanding in the First Quarter of 2009

ATTACHMENT 13: Schedule of placement of domestic government bonds for the first half-year 2009

ATTACHMENT 14: Amendments to the Law on State Budget 2009 Revised

ATTACHMENT 15: ATCI Proposed Amendments to the Budget Code

D. MUNICIPAL - Ukraine

I. COMPONENT DESCRIPTION – MUNICIPAL 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 January 1 through March 31, 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 pilot bonds will demonstrate practices that creditworthy issuers employ to win investor confidence, such as transparent accounts, full disclosure, and financing capital projects that "pay for themselves" with cost savings.

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

Creditworthiness assessments and legal preparations for pilot bonds will inform the development of a viable, self-sustaining municipal finance facility that raises funds in the capital markets and on-lends them to creditworthy cities and utilities.

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 AND ACHIEVEMENTS – MUNICIPAL UKRAINE

- ATCI DEVELOPED PROPOSALS TO THE DRAFT AMENDMENTS TO THE BUDGET CODE

- ATCI DRAFTED AMENDMENTS TO THE CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS

- ATCI ADVISED THE CITY OF LVIV ON DRAFT CITY COUNCIL RESOLUTION ON MAKING BORROWING, CURRENT INTEREST RATES, BOND CHARACTERISTICS (REGISTERED/BEARER BOND, CALL OPTION/NO OPTIONS). THE CITY HAS RECEIVED THE ISSUE RATING FROM STANDARD AND POOR'S AND HAS SUBMITTED REQUEST FOR APPROVAL OF BOND ISSUANCE TO THE MINISTRY OF FINANCE.

- ATCI PROMOTED INCLUSION OF THE INITIATIVE TO PERMIT PRIMARY PLACEMENT OF INTEREST BEARING MUNICIPAL BONDS BELOW PAR, IF THE BONDS ARE PLACED PUBLICLY AT A STOCK EXCHANGE, IN THE ADDRESS OF MUNICIPAL ROUND TABLE TO UKRAINIAN AUTHORITIES HELD AT AUC

- ATCI DRAFTED AMENDMENTS, IN PARTICULAR ON INTRODUCTION OF DEFINITIONS OF CONTINGENT LIABILITIES AND CONTINGENT DEBT AND ON REGULATION OF UNDERTAKING OF OBLIGATIONS BY LOCAL COMMUNITIES UNDER PUBLIC-PRIVATE PARTNERSHIP, INTRODUCED TO THE DRAFT LAW ON LOCAL BORROWINGS, WHICH ALSO INCLUDES SECTION ON ESTABLISHMENT AND FUNCTIONING OF A MUNICIPAL FINANCE FACILITY

- ATCI PROVIDED ANALYSIS OF THE CABINET OF MINISTERS' RESOLUTION #52 WHICH SHOWS THAT IT CONTRADICTS THE CONSTITUTION OF UKRAINE, THE BUDGET CODE, AND MANY OTHER LAWS. STARTED INITIATIVE ON PILOT MUNICIPAL REPO TRANSACTIONS WITH DOMESTIC GOVERNMENT BONDS AND MUNICIPAL BONDS OF OWN ISSUANCE IN ORDER TO AVOID LOSE OF LOCAL BUDGETS FUNDS BECAUSE OF POSSIBLE INSOLVENCY OF THE BANKS CAUSED BY THE FINANCIAL CRISIS.

- ATCI MET WITH ITT INVESTMENT GROUP ON POSSIBLE INVESTMENT TO MFF

III. EXECUTIVE SUMMARY – MUNICIPAL UKRAINE

City of Lviv decided to issue UAH 300 mln. bond in 2009 in preparation for EURO-2012 Football Championship, and requested ATCI to continue technical assistance. ATCI advised the city on draft City Council resolution on making borrowing, current interest rates, bond characteristics (registered/bearer bond, call option/no options). The city has received the issue rating from Standard and Poor's and has submitted a request for approval to the Ministry of Finance for the bond issuance.

ATCI continued to develop its initiative on introducing amendments to the SMSSC Regulation 414 providing for a 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 a 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. Ministry of Finance needs several letters supporting this idea from Ukrainian cities in order to appeal to the SSMSC to change its regulation. ATCI requested cities of Lutsk, Lviv, Uzhgorod, Vinnitsya, Energodar, Odesa and the Association of Ukrainian Cities to provide MinFin with such letters. Also ATCI's relevant proposals were included to the Address of the Municipal Energy Saving Round Table to Ukrainian authorities (see **Attachment 16**).

The Budget Committee of the Verkhovna Rada is preparing draft amendments to the Budget Code for the second reading. ATCI developed proposals to the draft amendments which are aimed to simplify local borrowings within the crises environment:

- To introduce a definition of debt management
- To cancel prohibition for the cities to make external borrowings
- To determine territorial communities of cities and Autonomous Republic of Crimea as the borrowers and guarantors
- To introduce possibility to intercept local budget funds within the limits of proceeds of the development budget by the Treasury in case of non-fulfillment of liabilities by the borrower or guarantor
- To restrict contributions of the local self-government bodies in the statutory capital of the subjects of entrepreneurial activities with just the subjects of business of the communal sector of economy

- To provide possibility for power bodies of the Autonomous Republic of Crimea and local self-government bodies to credit the subjects of business of the communal sector of economy located in the territory of the Autonomous Republic of Crimea or of the relevant city
- To restrict prohibition in case of violation of the payment schedule only for making new borrowings, and to preserve the right to make borrowings for debt refinancing purposes
- To introduce definition of "contingent debt" and to regulate undertaking of obligations by the state and local territorial communities under public-private partnership etc. (see **Attachment 15**)

ATCI introduced relevant amendments, in particular on introduction of definitions of contingent liabilities and contingent debt and on regulation of undertaking of obligations by local communities under public-private partnership, to the draft Law on Local Borrowings, which also includes section on establishment and functioning of a Municipal Finance Facility (see **Attachment 17**).

ATCI Chief of Party met with ITT Investment Group President, which might consider a possibility to invest into MFF seed capital. ITT Group President to get back to COP to voice interest.

In cooperation with the Institute for Budgetary and Social and Economic Research, ATCI drafted amendments to the Cabinet of Ministers Resolution 207 *On Procedure of Local Borrowings*, which include elimination of mandatory credit rating, exclusive list of reasons for MinFin's rejection to approve, and the possibility of primary placement of municipal bonds below par, if those bonds are placed publicly at a stock exchange (see **Attachment 10**).

Ukrainian municipalities have treasury balances to be placed for liquidity management purposes. But on January 28, 2009, the Cabinet of Ministers adopted Resolution #52 "On Approval of the Procedure for Placement in 2009 of Temporarily Free Funds of Local Budgets in Deposit Accounts in the Banking Institutions" which obliges municipalities to place their treasury balances exclusively in state-owned banks. ATCI's analysis of the Resolution shows that it contradicts the Constitution of Ukraine, the Budget Code, and many other Laws (see **Attachment 18**). Most probably, the reason for limiting of the circle of commercial banks in which funds of the local budgets can be deposited to the government banks is the fear to lose these funds because of possible insolvency of the banks caused by the financial crisis. As of March 1, 2009, UAH 400 mln were not repaid to cities by commercial banks after deposits' maturities. Due to such situations ATCI started initiatives on pilot municipal Repo transactions with domestic government bonds and municipal bonds of own issuance, as provided by the Article 18 of the Law On State Budget of Ukraine for 2009.

ATCI attended All-Ukrainian Municipal Hearings, conducted by the Fund of Ukraine's Local Governance Promotion and the Association of Ukrainian Cities with participation of the President, Members of Parliament, Ministers, local governments and city mayors. ATCI participated in Section on financial, economic, legal and institutional reforms of the local governance.

IV. ADMINISTRATIVE ISSUES – MUNICIPAL UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – MUNICIPAL 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	• DEVELOPED PROPOSALS TO THE DRAFT AMENDMENTS TO THE BUDGET CODE • DRAFTED AMENDMENTS TO THE CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS • CONTINUED TO DEVELOP INITIATIVE ON INTRODUCING AMENDMENTS TO THE SMSSC REGULATION 414 PROVIDING FOR A POSSIBILITY OF PRIMARY PLACEMENT OF MUNICIPAL BONDS BELOW PAR, IF THOSE BONDS ARE PLACED PUBLICLY AT A STOCK EXCHANGE • PROVIDED ANALYSIS OF THE CABINET OF MINISTERS' RESOLUTION #52 WHICH SHOWS THAT IT CONTRADICTS THE CONSTITUTION OF UKRAINE, THE BUDGET CODE, AND MANY OTHER LAWS. STARTED INITIATIVE ON PILOT MUNICIPAL REPO TRANSACTIONS WITH DOMESTIC GOVERNMENT BONDS AND MUNICIPAL BONDS OF OWN ISSUANCE IN ORDER TO AVOID LOSE OF LOCAL BUDGETS FUNDS BECAUSE OF POSSIBLE INSOLVENCY OF THE BANKS CAUSED BY THE FINANCIAL CRISIS.
2. Participate in Drafting on Law on Local Borrowing	• AMENDMENTS, IN PARTICULAR ON INTRODUCTION OF DEFINITIONS OF CONTINGENT LIABILITIES AND CONTINGENT DEBT AND ON REGULATION OF UNDERTAKING OF OBLIGATIONS BY LOCAL COMMUNITIES UNDER PUBLIC-PRIVATE PARTNERSHIP, WERE INTRODUCED TO THE DRAFT LAW ON LOCAL BORROWINGS, WHICH ALSO INCLUDES SECTION ON ESTABLISHMENT AND FUNCTIONING OF A MUNICIPAL FINANCE FACILITY
3. Assemble Legal Task Force for Municipal Issuance	COMPLETED
4. Develop a roadmap for bond issuance by municipalities	COMPLETED
5. A ST Advisor will investigate other legal and economic issues	COMPLETED

B. Prepare and Issue Pilot Bonds

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Initiation of pilot	COMPLETED
2. Implementation	COMPLETED

3. Berdyansk--Pilot Bond Development	COMPLETED
4. Korosten-Pilot Bond Development	COMPLETED
5. Cherkasy--Re-evaluate for Pilot Bond	COMPLETED
6. Select, evaluate, prepare 2 new Pilot Bond Cities/Utilities	COMPLETED
7. Luhansk	COMPLETED
8. L'viv	COMPLETED…SEE BELOW FOR ADDITIONAL ASSISTANCE
9. Assist other municipalities upon request	• ADVISED THE CITY OF LVIV ON DRAFT CITY COUNCIL RESOLUTION ON MAKING BORROWING, CURRENT INTEREST RATES, BOND CHARACTERISTICS (REGISTERED/BEARER BOND, CALL OPTION/NO OPTIONS). THE CITY HAS RECEIVED THE ISSUE RATING FROM STANDARD AND POOR'S AND HAS SUBMITTED REQUEST FOR APPROVAL OF BOND ISSUANCE TO THE MINISTRY OF FINANCE.

C. Pooled Finance Facility (Municipal Finance Facility)

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Pooled Finance Conference and Development	COMPLETED
2. Develop legislative basis for establishment of MFF	• AMENDMENTS, IN PARTICULAR ON INTRODUCTION OF DEFINITIONS OF CONTINGENT LIABILITIES AND CONTINGENT DEBT AND ON REGULATION OF UNDERTAKING OF OBLIGATIONS BY LOCAL COMMUNITIES UNDER PUBLIC-PRIVATE PARTNERSHIP, WERE INTRODUCED TO THE DRAFT LAW ON LOCAL BORROWINGS, WHICH ALSO INCLUDES SECTION ON ESTABLISHMENT AND FUNCTIONING OF A MUNICIPAL FINANCE FACILITY
3. Cooperate with IBSER and AUC to present round tables on Laws on Local Borrowing and MFF	NO ACTIVITY ON THIS ISSUE.
4. Secure GOU/private financing for MFF	• COP MET WITH ITT INVESTMENT GROUP PRESIDENT FOR THEIR CONSIDERATION OF POSSIBLE FINANCING OF MFF
5. Development of business plan	N/A
a) Development of implementing regulations	N/A
b) Development of legal and operating documents	N/A
6. Develop operational policies	N/A
7. Financial product development	N/A

8. Develop credit enhancements	N/A
9. Provide technical support for operational start-up and pilot issue	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	• PARTICIPATED IN ALL-UKRAINIAN MUNICIPAL HEARINGS, CONDUCTED BY THE FUND OF UKRAINE'S LOCAL GOVERNANCE PROMOTION AND THE ASSOCIATION OF UKRAINIAN CITIES

LIST OF ATTACHMENTS

ATTACHMENT 16: Address of the Municipal Energy Saving Round Table to Ukrainian Authorities

ATTACHMENT 17: Draft Law on Local Borrowings

ATTACHMENT 18: Memorandum on CabMin Resolution No. 52 on the Procedure of Placement of Local Budget Balances on Deposits in Commercial Banks.

E. LEASING - Ukraine

II. COMPONENT DESCRIPTION – LEASING UKRAINE

This report details events and activities relating to the Leasing Component of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from January 1 through March 31, 2009.

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

ATCI will aim to strengthen existing leasing companies. Capacity building will consist of training and consulting for lessors, lessees, farmers, regulators, and other interested parties, such as equipment vendors and banks. ATCI will seek potential foreign and local investors, interested in investing in Ukraine's leasing industry, and assist them in their evaluation of specific opportunities. ATCI will continue to conduct public awareness efforts, alone and in conjunction with local business groups and other international donor agencies, directed at potential lessees and equipment vendors as well as the media, in order to help familiarize Ukraine's business community with how leasing works, as well as how businesses and farmers can successfully use leasing.

The Leasing Component will facilitate the increase the number of professionals available to work in Ukraine's leasing industry, as well as increase their professional knowledge and standing, by introducing the Certified Leasing Specialist Program (CLS), a designation for market participants so that they may attain world standards of practice.

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

III. SIGNIFICANT EVENTS – LEASING UKRAINE

- ON FEBRUARY 3, ATCI HELD AN AWARDS CEREMONY FOR THE 12 INDIVIDUALS WHO SUCCESSFULLY COMPLETED THE CLS TRAINING AND EXAMS DURING THE LAST QUARTER. THE TOTAL NUMBER OF CLS IN UKRAINE IS AT 95 PERSONS (47 MEN AND 48 WOMEN).

- IN CONJUNCTION WITH THE CLS AWARDS CEREMONY, THE 4TH GENERAL MEETING OF THE NGO WAS HELD ADDRESSING THE ISSUES OF NGO'S BUDGET, FUNDRAISING AND COOPERATION WITH THE LEASING ASSOCIATION AND KYIV NATIONAL UNIVERSITY FOR TRADE AND ECONOMICS.

- ATCI CONTINUED TO TAKE PART IN THE WORK OF THE LEASING COMMISSION WITHIN THE UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS WITH REGARD TO LEGISLATIVE INITIATIVES AIMED AT CREATING A FAVORABLE ENVIRONMENT FOR THE DEVELOPMENT OF LEASING. ATCI PROPOSED HOLDING

SEMINARS FOR PUBLIC OFFICIALS TO RAISE THEIR AWARENESS AND UNDERSTANDING ABOUT LEASING; INITIAL SEMINAR PROPOSED FOR NEXT QUARTER.

- ON MARCH 12, FINDINGS OF THE LEASING SURVEY-2008 WERE PRESENTED SHOWING A 40% DROP IN NEW LEASES AS COMPARED TO 2007 AND DECREASE IN LEASING PORTFOLIO IN THE 4Q OF 2008.

- PURSUANT TO THE STRATEGY OF PROMOTION OF THE CLS PROGRAM AND UNION, ATCI HAS PUBLISHED AND DISTRIBUTED THE THIRD ISSUE OF THE CLSU NEWSLETTER CONTAINING, AMONG OTHER MATERIALS, AN OVERVIEW OF THE UKRAINIAN LEASING MARKET PERFORMANCE IN 2008 BASED ON THE DATA OBTAINED FROM THE FINANCIAL SERVICES REGULATOR.

- WORKING ON ENSURING THE NGO'S SUSTAINABILITY, ATCI HELD SEVERAL MEETINGS WITH THE NGO WORKING GROUP DURING WHICH THE GRANT-SEEKING STRATEGY WAS ELABORATED AND SHORT-TERM PLANS ON ATTRACTING NEW MEMBERS AND ENCOURAGING EXISTING ONES WERE DEFINED.

- ON MARCH 13, NEXT CLS TRAINING SESSION BEGAN WITH 10 PEOPLE PARTICIPATING OUT OF 30 INITIALLY ENROLLED WHICH WAS DUE TO DIFFICULT FINANCIAL STANDING OF MOST LEASING COMPANIES IN UKRAINE. IN ORDER TO KEEP THE NUMBER OF CERTIFIED LEASE SPECIALISTS GROWING DESPITE THE CURRENT SITUATION, ATCI URGED THE NGO TO ENCOURAGE TRAINEES FROM PREVIOUS SESSIONS WHO DID NOT PASS ALL 3 CERTIFICATION EXAMS TO RE-TAKE THEM DURING THIS EXAM SESSION SCHEDULED FOR EARLY NEXT QUARTER.

- AT THE END OF MARCH, ATCI WAS ADDRESSED BY ONE OF THE CERTIFIED LEASE SPECIALISTS WHO IS A DIRECTOR OF AUDIT AND CONSULTING COMPANY IN RIVNE (WESTERN UKRAINE) SUGGESTING TO HOLD A SEMINAR FOR POTENTIAL LESSEES THERE. SHE ALSO EXPRESSED HER INTEREST IN BECOMING A REGIONAL TRAINING PROVIDER OF THE CLS PROGRAM, SINCE AT THE MOMENT A LARGE NUMBER OF EMPLOYEES OF WESTERN UKRAINIAN LEASING COMPANIES, IN PARTICULAR THOSE IN LVIV, WHO ARE WILLING TO PARTICIPATE IN TRAININGS NEED TO COME TO KYIV FOR THAT.

- ATCI CONTINUED TO MONITOR ACTIVITIES OF LEASING COMPANIES OWNED BY FOREIGN BANKS IN UKRAINE. IT WAS DETERMINED THAT DUE TO THEIR BETTER ACCESS TO FINANCIAL RESOURCES THOSE COMPANIES MANAGED TO INCREASE NOT ONLY THEIR LEASING PORTFOLIOS BUT ALSO THE AMOUNT OF NEW LEASES AS COMPARED TO 2007.

- DRAFTING AND EDITING OF THE LEASING MANUAL WAS FINISHED AND PREPARATION FOR ITS PUBLISHING HAS BEGUN. ATCI EXPECTS THE LEASING MANUAL TO BE AVAILABLE FOR DISTRIBUTION BY THE MIDDLE OF NEXT QUARTER.

III. EXECUTIVE SUMMARY – LEASING UKRAINE

On February 3, ATCI held CLS Awards Ceremony for the sixth time, awarding 12 certificates. Thus, the total number of Certified Lease Specialists in Ukraine now numbers 95 people (47 men, 48 women).

Together with the CLS Awards Ceremony, the 4th General Meeting of the Certified Lease Specialists Union (the NGO) was held. The discussion touched upon the ways to finance NGO's activities, including determining the amount of membership dues and setting up a working group on fundraising, as well as possible spheres of cooperation with the Leasing Association and Kyiv National University for Trade and Economics (KNUTE). Participants of the meeting approved the NGO's annual budget for 2009 and, as part of it, payment of membership dues in the amount of UAH 200 (USD 26) per year. Coupled with UAH 100 paid by the training provider as a donation for each attendee of the CLS training, this amount is sufficient to support basic functions of the NGO, such as holding CLS exams and administering the Web-site (see **Attachment 19**). In the future, it is planned to increase the NGO's funds by attracting more members and raising membership dues providing the members with additional benefits in return. Also, members of the NGO were invited by the Head of the Chair of Banking, KNUTE, to take part in the development of Master's programme in leasing, including designing a curriculum and choosing topics for diploma theses, which was a clear recognition of high professional level of Certified Lease Specialists. In the end, the participants approved the annual work plan of the NGO which included starting the grant-seeking process, obtaining an exclusive license from the CLP Foundation to administer the CLS Program in Ukraine, conducting lectures for members where they could share their experience, obtaining rights for publishing of next editions of the Leasing Manual drafted by ATCI and promoting CLS Program and Union. ATCI is currently in communications with the CLPF for the transfer of the CLS license.

In January-March, ATCI continued to take an active part in the work of the Leasing Commission within the Ukrainian League of Industrialists and Entrepreneurs. During that period, the Commission focused on finding alternative ways to push forward their legislative initiatives since the Anticrisis Draft Law no.3306 did not pass the first reading in Verkhovna Rada and was returned for follow-on revision. Such ways might include addressing the Ministry of Finance for it to support the amendments proposed as well as joining efforts with banking and transport lobbies which have similar interests. Yet another area of the Commission's activities suggested by ATCI was holding of educational seminars for public officers to raise their awareness about leasing and how it works. First such seminar is planned for May 28, 2009, and the list of potential participants includes representatives of the Ministry of Finance, Verkhovna Rada, National Bank of Ukraine, Association of Ukrainian Banks, etc. ATCI is responsible for preparing the agenda of this event. The Commission also intends to hold a round table for representatives of the State Tax Administration, Ministry of Finance and National Bank of Ukraine in order to determine ways of improving the regulatory framework of leasing.

At the end of January, ATCI was asked to provide its comments to the Government Strategy of Financial Sector Development in Ukraine. The document is aimed at ensuring sustainability, transparency and competitiveness of Ukrainian financial sector, in particular, of leasing market which was named one of the priority financial markets. ATCI emphasized the need for elimination of inconsistencies between various legal acts regulating leasing business, tax stimulation of the development of leasing as means of fixed assets acquisition and facilitation of access by leasing companies to long-term financing.

On March 12, findings of the Leasing Survey-2008 were presented. The survey was prepared by the Leasing Association and ATCI, and carried out by the State Commission for Regulation of Financial Services Markets. The research showed a 40% drop in new leases despite the fact that the number of lease contracts grew as compared to 2007; such situation was caused by financial crisis and reduction in the average size of lease transaction as many leasing companies started to work more intensively with individuals. Leasing portfolio increased by 30% as compared to 2007 at the same time decreasing by nearly UAH 1 billion just during the last quarter of 2008 due to the drop in new leases and overall halt in financing. Transport continued to have the largest share in the leasing portfolio (51%) being far ahead of other popular types of equipment, such as constructional equipment and road-building machinery (15.2%) and agricultural equipment (9.5%). The forecasts for the industry are quite pessimistic with the decline continuing

throughout 2009 and key indicators dropping to the level of 2006; many independent and captive leasing companies will cease to operate while bank-owned leasing companies have some prospects provided their parent banks have good standing; those companies that will survive are likely to focus on smaller projects and working with SMEs and individuals (see **Attachment 20).**

Within the strategy of promotion of the CLS Program and the NGO, ATCI published and distributed the 3rd issue of the NGO's newsletter addressing such urgent topics as tax accounting of losses incurred as a result of exchange rate fluctuations, notary registration of leased asset repossession and overview of the Ukrainian leasing market performance in 2008 based on the data obtained from the Financial Services Regulator (see **Attachment 21).**

Working on ensuring the sustainability of the NGO, ATCI held several meetings with the NGO Working Group during which the grant-seeking strategy was elaborated. It was decided to prepare three short applications with possible projects that might be of interest for potential donors, such as nationwide program of increasing the professional standards in leasing; facilitating the use of leasing in municipal programs (e.g. public transport, communal services) and raising the competitiveness of leasing companies (e.g. through risk management training). Also, short-term plans on attracting new members and encouraging existing ones were defined; in particular, it was decided to hold a round table for Certified Lease Specialists on troubled debt portfolio during next quarter.

On March 13, the next CLS training session began participating in which were 10 people. Initially, nearly 30 people enrolled for the training, but some of the companies failed to pay for it due to their difficult financial standing and most of the candidates could not afford to pay themselves. Therefore, in order to keep the number of Certified Lease Specialists growing, it was decided to take additional measures to encourage trainees from previous sessions who did not pass all 3 certification exams to re-take them during this exam session scheduled for April, 25-26. In particular, thanks to financial support of ATCI, the cost of exams for such people remains at the level of the previous year, that is, UAH 200 while this year's trainees will have to pay UAH 300 per exam.

In the end of March, one of the Certified Lease Specialists Ms. Galyna Riznyk, who is a director of audit and consulting company in Rivne (Western Ukraine), addressed ATCI suggesting holding of a seminar for potential lessees there with the support of the economic department of Rivne City Council. Since the target audience of such event in Rivne is rather small, it was decided that ATCI would prepare and send all the necessary presentations and other materials and provide guidelines on carrying-out of such seminars while the seminar itself would be held using the resources of the City Council. Ms. Riznyk also expressed her interest in becoming a regional training provider of the CLS Program, since at the moment a large number of employees of Western Ukrainian leasing companies, in particular, Lviv ones, who were willing to participate in the trainings, needed to travel to Kyiv for that.

ATCI continued to monitor leasing activities of major foreign banks in Ukraine. Having analyzed their performance in 2008, ATCI determined that thanks to better access to financing leasing companies owned by those banks managed to increase not only their leasing portfolios (by 100% on the average) but also the amount of new leases (by 150% on the average) as compared to 2007. That allowed them to boost their market share from 30% in 2007 to 40% in 2008. Also, determined were specific features of work of such companies (see **Attachment 22**).

Work on drafting and editing of the Leasing Manual was finished and preparations for its publishing began. ATCI expects to start distribution of the Leasing Manual during the middle of the next quarter.

IV. ADMINISTRATIVE ISSUES – LEASING UKRAINE

N/A

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Polling the financial community for interest n leasing courses from which successful participants will graduate as Certified Leasing Specialists	▪ COMPLETED
2. Design and launch 1-3 day leasing seminars	▪ COMPLETED
3. Deliver seminars for other industry participants	▪ COMPLETED
4. Prepare and launch seminars for potential lessees and CLS trainees in the regions	▪ ATCI WAS ADDRESSED BY CLS FROM RIVNE (WESTERN UKRAINE) SUGGESTING HOLDING OF THE SEMINAR FOR POTENTIAL LESSEES THERE WITH THE SUPPORT OF RIVNE CITY COUNCIL. DUE TO A LIMITED NUMBER OF POTENTIAL ATTENDEES, IT WAS DEEMED EXPEDIENT FOR ATCI TO PREPARE AND PROVIDE PRESENTATIONS AND OTHER MATERIALS WITH THE SEMINAR ITSELF BEING HELD USING THE RESOURCES OF RIVNE CITY COUNCIL
5. Develop strategy for CLS program for Ukraine: **a) Development of Content/Study Guide** **b) Develop training modules** **c) Develop examination** **d) Establish local training providers** **e) Begin program** **f) Establish NGO** **g) Expand the CLS training regionally**	▪ COMPLETED ▪ COMPLETED ▪ COMPLETED ▪ N/A. ▪ COMPLETED ▪ COMPLETED ▪ A CLS FROM RIVNE (WESTERN UKRAINE) EXPRESSED HER INTEREST IN BECOMING A REGIONAL TRAINING PROVIDER OF THE CLS PROGRAM SINCE AMONG EXISTING AND POTENTIAL CLS TRAINEES THERE WERE MANY REPRESENTATIVES OF WESTERN UKRAINIAN LEASING COMPANIES

h) Maintain the relevance of the CLS body of knowledge and exam questions	▪ ATCI, TOGETHER WITH THE NGO MEMBERS AND CLS TRAINERS, STARTED THE REVIEW AND UPDATE OF THE EXISTING POOL OF EXAM QUESTIONS IN THE LIGHT OF UPCOMING EXAMS SCHEDULED FOR APRIL, 25-26
i) Establish the sustainability of the NGO	▪ WITHIN THE STRATEGY OF PROMOTION OF THE CLS PROGRAM AND UNION, THE 3RD ISSUE OF THE NGO'S QUARTERLY NEWSLETTER WAS PUBLISHED AND DISTRIBUTED AMONG ALL PARTICIPANTS OF THE CLS PROGRAM AS WELL AS ALL LEASING COMPANIES. THE ISSUE TOUCHED UPON TAX ACCOUNTING OF LOSSES INCURRED AS A RESULT OF EXCHANGE RATE FLUCTUATIONS, NOTARY REGISTRATION OF LEASED ASSET REPOSSESSION AND OVERVIEW OF THE UKRAINIAN LEASING MARKET PERFORMANCE IN 2008 ▪ ATCI HELD SEVERAL MEETINGS WITH THE NGO WORKING GROUP DURING WHICH THE GRANT-SEEKING STRATEGY WAS ELABORATED AND SHORT-TERM PLANS ON ATTRACTING NEW MEMBERS AND ENCOURAGING EXISTING ONES WERE DEFINED. IN PARTICULAR, IT WAS DECIDED TO HOLD A ROUND TABLE FOR CERTIFIED LEASE SPECIALISTS ON TROUBLED DEBT PORTFOLIO NEXT QUARTER.
j) Ensure the transition of the CLS Program under the auspices of the NGO	▪ ATCI INITIATED THE PROCESS OF TRANSFERRING THE LICENSE FOR THE CLS PROGRAM TO THE NGO AND AGREED WITH THE CLP FOUNDATION THAT THE LICENSE FEE FOR THE FIRST YEAR WOULD AMOUNT TO USD 500 (REDUCED FROM $1000). THE CLP FOUNDATION STARTED THE PREPARATION OF ALL NECESSARY DOCUMENTS FOR THIS TRANSFER

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Initiation	▪ COMPLETED
2. Hold/participate in conferences/roundtables on state of leasing industry for gov't. officials, media, and industry	▪ WITHIN THE FRAMEWORK OF LEASING COMMISSION OF THE UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS, ATCI RECOMMENDED HOLDING SEMINARS FOR PUBLIC OFFICIALS TO RAISE THEIR AWARENESS ABOUT LEASING AND HOW IT WORKS. FIRST SUCH SEMINAR IS SCHEDULED FOR MAY 28, 2009, WITH POTENTIAL PARTICIPANTS BEING REPRESENTATIVES OF THE MINISTRY OF FINANCE, VERKHOVNA RADA, NATIONAL BANK OF UKRAINE, ASSOCIATION OF UKRAINIAN BANKS, ETC.
3. Prepare and distribute educational materials on various aspects of international best practices and practice in Ukraine	▪ COMPLETED
4. Prepare and distribute Ukrainian Leasing Manual	▪ DRAFTING AND EDITING OF THE LEASING MANUAL WAS FINISHED AND PREPARATIONS FOR ITS PUBLISHING, PRESENTATION AND DISTRIBUTION BEGAN. MANUAL WILL BE DISTRIBUTED STARTING MID PORTION OF NEXT QUARTER.

Task 3. Financial Leasing – Market Research

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Design and track a system of indicators reflecting the macro situation of the leasing market	▪ USING GOVERNMENT DATA, ATCI ESTABLISHED THAT THE AMOUNT OF NEW LEASES IN 2008 WAS UAH 9.98 BILLION (USD 1.3 BILLION) AND LEASING PORTFOLIO AS OF THE END OF 2008 WAS UAH 28.5 BILLION (USD 3.7 BILLION)
2. Prepare and carry out a survey covering main leasing macro indicators	▪ ON MARCH, 12, FINDINGS OF THE LEASING SURVEY PREPARED BY THE LEASING ASSOCIATION AND ATCI AND CARRIED OUT BY THE FSR WERE PRESENTED SHOWING A 40% DROP IN NEW LEASES AS COMPARED TO 2007 AND DECREASE IN LEASING PORTFOLIO IN THE 4Q OF 2008 BY NEARLY UAH 1 BILLION.
3. Monitor leasing activities of major foreign banks in Ukraine	▪ ATCI ANALYZED PERFORMANCE OF LEASING ARMS OF MAJOR FOREIGN BANKS IN UKRAINE IN 2008 AND ESTABLISHED THAT DUE TO BETTER ACCESS TO FINANCING THEY INCREASED BOTH THEIR LEASING PORTFOLIOS (BY 100% ON THE AVERAGE) AND AMOUNT OF NEW LEASES (BY 150% ON THE AVERAGE) THUS BOOSTING THEIR MARKET SHARE TO 40% (AS COMPARED TO 30% IN 2007)

Task 4. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Initiation of assistance services	▪ COMPLETED
2. Transaction-based advisory services	▪ COMPLETED
3. Provide advisory services on selected basis to lessors and other market participants	▪ N/A
4. Assist new market entry on selected basis	▪ N/A
5. Provide consulting on organizational and management Issues	▪ COMPLETED
6. Assistance in securing financial sources	▪ COMPLETED

LIST OF ATTACHMENTS – LEASING UKRAINE

ATTACHMENT 19: Minutes of the 4th General Meeting of the NGO

ATTACHMENT 20: Findings of the Leasing Survey-2008

ATTACHMENT 21: 3rd Issue of the Certified Lease Specialists Union's Newsletter

ATTACHMENT 22: Leasing Activities of Major Foreign Banks in Ukraine in 2008

F. CREDIT BUREAU/CREDIT RATING AGENCY – Ukraine

This report provides details on events and activities relating to the Credit Bureau/Credit Rating component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from January 1, 2009 through March 31, 2009.

I. COMPONENT DESCRIPTION – CREDIT BUREAU UKRAINE

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

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

II. SIGNIFICANT EVENTS - CREDIT BUREAU UKRAINE

- ATCI PARTICIPATES IN THE MINFIN WORKING GROUP TO DRAFT A LAW CONCERNING ACTIVITIES AND REGULATION OF COLLECTION AGENCIES. THE MAJOR CONCERN OF ATCI IS TO KEEP CONSUMER PRIVATE INFORMATION CONFIDENTIAL, AND THUS TO PREVENT THE POSSIBILITY FOR THE COLLECTION AGENCIES RECEIVING CREDIT REPORTS FROM THE CREDIT BUREAUS OR THIRD PARTIES

- MAGAZINE 'VLAST DENEG' PUBLISHES INTERVIEW WITH CHIEF OF PARTY, "BEST INTERNATIONAL PRACTICES OF CREDIT BUREAUS; CREDIT BUREAUS WHICH SELL CREDIT REPORTS TO COLLECTION AGENCIES MUST LOSE LICENSES"

- ATCI, IN PURSUIT OF MARKET EDUCATION AND PUBLIC AWARENESS EFFORTS, PUBLISHES 10,000 COPIES OF FAQ BROCHURE ON CREDIT BUREAUS, DISTRIBUTING TO THE CREDIT BUREAUS AND THEIR FINANCIAL INSTITUTIONAL PARTNERS; THIS LIMITED AMOUNT USED AS PILOT TO DETERMINE RESPONSES AND NEED FOR ADDITIONAL PUBLISHED AMOUNT

- VERKHOVNA RADA ADOPTED AMENDMENTS TO THE LAW OF UKRAINE N2316 "ON ORGANIZING THE FORMATION AND CIRCULATION FOR CREDIT HISTORIES" 4TH OF MARCH. AUTHORITY FOR SUPERVISION AND LICENSING HAS BEEN TRANSFERRED FROM MINJUST TO FSR. ALTERNATIVE DRAFT LAW N2507 WAS RETURNED TO THE FIRST READING

III. EXECUTIVE SUMMARY – CREDIT BUREAU UKRAINE

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

ATCI's area of focus remained in two basic areas: a) overall coordination of the market given the likelihood of data fragmentation and b) drafting regulations. ATCI continues to interface on a regular basis with MinFin, FNBCH, IBCH, and other interested parties, including foreign credit bureau operators. Major highlights and accomplishments over the past quarter follow:

- IBCH has conducted research on the basis of personal databases of the credit histories. The share of the bad credits is 10.35 %. More than 30 % of the refusals by the banks-partners to issue loans are being based on information from the IBCH. A proportion of the bad credits for the individuals in Ukraine is about UAH 30 billion in the opinion of the collection agencies.

- ATCI is monitoring the problems of credit bureaus as they operate under crisis conditions in the financial markets.

In order to protect consumers while at the same time educate them, ATCI has (1) advised the regulator of Credit Bureaus to prevent the sale of credit histories to collection agencies and (2) published and distributed 10,000 FAQ brochures. With a positive response from Credit Bureaus and their partners, ATCI will publish and distribute more brochures to meet demands. See **Attachment 23**, the Credit Bureau brochure in Ukrainian and translation into English.

The magazine Vlast Deneg requested an interview with the Chief of Party to describe best international practices as well as possible violations that Credit Bureaus practice. During this interview the COP discussed best international practices, how consumers can benefit from good credit reports, how consumers can improve their credit histories, and the danger that Credit Bureaus realize if selling confidential information to third parties (see **Attachment 24**).

IV. COMPONENT DESCRIPTION - CREDIT RATING UKRAINE

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

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

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

Being at a nascent stage, Ukrainian ratings industry has a long way to go, and an ATCI objective is to make sure that it develops according to international standards of best practice. To achieve this objective and in active cooperation with market participants and government agencies, ATCI focuses its efforts on establishing policy dialogue aimed at both the development of fair and effective regulatory framework and implementation of best international practices on operational level.

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.

V. SIGNIFICANT EVENTS - CREDIT RATING UKRAINE

- ATCI ORGANIZED A ROUND TABLE ALONG WITH ULIE WITH REGARD TO ELIMINATION OF MANDATORY CREDIT RATINGS IN UKRAINE; WORKING GROUP ESTABLISHED TO DISCUSS DRAFT LAW ON CREDIT RATINGS

- ATCI SUBMITTED FOR CONSIDERATION TO THE WORKING GROUP A DRAFT LAW 'ON SYSTEM OF CREDIT RATING IN UKRAINE'

VI. EXECUTIVE SUMMARY - CREDIT RATING UKRAINE

Brief Historic Note

The mandatory rating requirement came into existence in late 2004. This required those companies wanting to issue ratings in Ukraine to be selected by tender conducted by the SSMSC. One key requirement was that the 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 them 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.

Events in the Market

Ukraine

ATCI had earlier last year met with its counterpart the Ukrainian Association of Investment Businesses. During the discussion, the problems in the ratings market were noted: no competition; the market is not transparent; and there is an acute need to change the legal requirement for mandatory ratings of issuers and issues of securities. Draft normative acts proposed earlier do not solve these problems

effectively enough. All of this calls for the need to elaborate a new draft law. As a result, ATCI and UAIB agreed to pursue drafting a new law, with UAIB developing a work plan for this venture.

Pursuant to this earlier meeting, ATCI called for another meeting in late December with Mr. Leonov, President, UAIB, to discuss their intentions of following through in their participation on elaborating a draft law and eliminating mandatory credit ratings. In that UAIB had done nothing since the last meeting, ATCI had commented on its activities and plans to eliminate mandatory credit ratings for Ukrainian issuers of bonds, which are consistent with best world practices. ATCI delivered a soft copy of the white paper regarding this issue, developed several years ago; UAIB was to deliver to ATCI a new plan and timeline for activities during the first week of 2009. A 'new' plan was delivered to ATCI by the UAIB; this plan duplicated the plan developed by the UAIB and delivered to ATCI 8 months prior.

Based on continued non-actions by the UAIB, ATCI decided to seek another partner for the promotion of the elimination of the mandatory credit ratings requirements. ATCI called on the Ukrainian League of Industrialists and Entrepreneurs (ULIE) for their interest. After a formal meeting with Mr. Kinakh, ULIE President, ATCI and ULIE agreed to act together, already holding one professional round table and working together in drafting the Law on Credit Ratings. See **Attachment 25**, Draft Credit Rating Law. A working group to discuss this ATCI-drafted law will meet early in the next quarter, with another round table to be held, discussing the merits of the elimination of mandatory credit ratings and it is planned that the draft law will be submitted to the Rada prior to the end of the next quarter. ATCI has already provided a detailed assessment of other laws and regulations that must be amended with the elimination of mandatory credit ratings.

Advisor of the Prime Minister and stakeholder of Ukrainian Interbank Currency Exchange (UICE) Mr. Ginzburg announced that he sold his company "Credit Rating". New owner and amount of transaction has not been disclosed. It is very likely that the 'sale' was a technical deal (i.e., sale to a related party).

International

The European Parliament's Economic and Monetary Affairs Committee meeting in Strasbourg were voting on reform. Lawmakers voted strongly in favor of mandatory registration and supervision of credit rating agencies as policymakers seek to better protect investors after the worst market turmoil in decades.

The passing of the legislation would mean that the agencies would be regulated in Europe for the first time and oblige them to disclose compensation agreements with clients and to rotate analysts to help ensure objectivity in ratings, among other things.

VII. ADMINISTRATIVE MATTERS – CB/CR UKRAINE

NONE

VIII. 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	COMPLETED

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

• **Secure Buy-in of Foreign Investors and Banks**	COMPLETED
• **Develop and Deliver Package of Training Programs (banks, leasing, credit unions)**	COMPLETED
• **Assist the Ministry of Justice in drafting regulations governing CB operations**	• ATCI ASSISTS MINJUST IN THE DRAFTING REGULATIONS GOVERNING CREDIT BUREAU OPERATIONS. • COMPLETED - TASK FORCE (ATCI, ICB, FNBCH, MINISTRY OF JUSTICE) FINALISES THE REGULATION ON LICENSING REQUIREMENTS.AND MINISTRY OF JUSTICE OF UKRAINE ADOPTS LICENSING REGULATION FOR CREDIT BUREAUS. • TASK FORCE AGREES TO DRAFT TWO MORE REGULATIONS: ON UNIFIED REGISTRY OF CREDIT BUREAUS, AND ON INSPECTION OF CREDIT BUREAUS. • FNBCH, IBCH, AND UBCH (PRIVATBANK) RECEIVED THE LICENSE FOR CREDIT BUREAU • ATCI ASSISTS UKRAINIAN CREDIT BUREAUS AND THE MINISTRY OF JUSTICE OF UKRAINE IN ADDRESSING PRACTICAL PROBLEMS RESULTING FROM THE ADOPTED LICENSING REGULATION

	• ATCI, UKRAINIAN CREDIT BUREAUS AND THE MINISTRY OF JUSTICE OF UKRAINE CONTINUE THE DEVELOPMENT OF REGULATION ON INSPECTION OF CREDIT BUREAUS. • ATCI PARTICIPATES IN WORKING GROUP TO ENSURE IMPLEMENTATION OF THE LAW OF UKRAINE "ON ORGANIZING THE FORMATION AND CIRCULATION FOR CREDIT HISTORIES" • THE MINISTRY OF JUSTICE PUBLISHED DRAFT REGULATION ON INSPECTION OF CREDIT BUREAUS ON ITS WEB PAGE. ATCI SUBMITTED ITS COMMENTS TO THE DRAFT REGULATION TO THE MINISTRY OF JUSTICE. • MINJUST INITIATES INSPECTIONS OF CREDIT BUREAUS • ATCI PARTICIPATES IN A MEETING OF THE WORKING GROUP IN THE MINISTRY OF JUSTICE. THE DISCUSSING WAS ABOUT PROJECT OF THE KABMIN'S REGULATION CONCERNING CRITERIA'S, WHICH ARE CONSIDERED FOR ESTIMATING RISKS IN COMMERCIAL ACTIVITY OF CREDIT BUREAUS. • ATCI PARTICIPATES IN A MEETING OF THE WORKING GROUP AT THE MINISTRY OF JUSTICE. THE DISCUSSION WAS ABOUT AMENDMENTS TO THE LAW OF UKRAINE "ON ORGANIZING THE FORMATION AND CIRCULATION FOR CREDIT HISTORIES". PROJECT OF THE AMENDMENTS ENDOWS THE CREDIT BUREAUS BY THE RIGHTS TO REQUEST INFORMATION FROM STATE TAX ADMINISTRATION. • ATCI PARTICIPATES IN THE MINFIN WORKING GROUP TO DRAFT LAW REGULATING AND DEFINING ACTIVITIES OF COLLECTION AGENCIES; ATCI STRONGLY ADVISES AGAINST THE SALE OF CREDIT HISTORIES TO COLLECTION AGENCIES BY CREDIT BUREAUS OR BY THIRD PARTIES
• **Deliver educational workshops for the specialists of the Ministry of Justice and other state agencies**	COMPLETED
• **Discuss participation in international credit bureau conference to be held in Kyiv/Ukraine**	COMPLETED

CREDIT RATING COMPONENT	
• **Assist in the development of competitive and fair ratings industry**	• INTERNATIONAL CREDIT RATINGS EXPERT PREPARED A WHITE PAPER ON THE DEVELOPMENT OF A COMPETITIVE DOMESTIC RATINGS INDUSTRY IN UKRAINE AND RECOMMENDATIONS FOR THE UKRAINIAN RATING INDUSTRY. ATCI DISSEMINATED THE WHITE PAPER TO MARKET PARTICIPANTS, THE SECURITIES COMMISSION AND OTHER INTERESTED PARTIES. MAJOR FINDING OF WHITE PAPER IS THAT THE REQUIREMENT FOR MANDATORY CREDIT RATINGS IS NOT BEST INTERNATIONAL PRACTICE AND THAT THIS REQUIREMENT IS A MAJOR DETERRANT TO BOND ISSUANCES • ATCI PARTNERS WITH A PRO-ACTIVE PARTNER, ULIE, IN FURTHERING THE ELIMINATION OF MANDATORY CREDIT RATINGS THROUGH DRAFTING OF LEGISLATION AND AMENDMENTS TO CURRENT (EFFECTED) LEGISLATION • ATCI ORGANISED A ROUND TABLE ALONG WITH ULIE WITH REGARD TO ELIMINATION OF MANDATORY CREDIT RATING IN UKRAINE. • ATCI SUBMITTED FOR CONSIDERATION OF THE WORKING GROUP A DRAFT LAW 'ON SYSTEM OF RATING IN UKRAINE'
• **Analyze existing regulatory framework**	• ATCI CONTINUES TO ANALYSE AND MONITOR EXISTING LEGISLATION AND REGULATORY FRAMEWORK • EXSITING LAWS AND REGULATIONS CONTAIN A NUMBER OF PROVISIONS, WHICH ARE DETRIMENTAL FOR FURTHER DEVELOPMENT OF FAIR AND COMPETITIVE RATINGS INDUSTRY, PARTICULARLY THE MANDATORY RATINGS PROVISION FOR ISSUANCE • SSMSC ADOPTED THE RESOLUTION #1040 "ON APPROVING THE REGULATION ON TENDER FOR SELECTION OF AUTHORIZED RATING AGENCIES" (REGISTERED BY THE MINISTRY OF JUSTICE NOVEMBER 24, 2006) • TENDER FOR SELECTION OF AUTHORIZED RATING AGENCIES TOOK PLACE. ONLY DOMESTIC "CREDIT RATINGS" AND INTERNATIONAL CREDIT RATINGS AGENCIES ARE AUTHORIZED • SSMSC ISSUED DRAFT RESOLUTION "ON APPROVING THE RULES FOR ASSIGNING RATINGS UNDER THE NATIONAL SCALE BY THE AUTHORIZED RATING AGENCIES" • FINANCIAL SERVICES REGULATOR (FSR) INTENDS TO ESTABLISH FINANCIAL STABILITY RATING RESTRICTIONS FOR NON-RESIDENT INSURANCE COMPANIES • SSMSC INTENDS TO IMPOSE MORE STRINGENT REQUIREMENTS TO

	RATING ISSUING COMPANIES OF BONDS USED IN CONSTRUCTING RESIDENTIAL REAL ESTATE
• **Market participants**	• DOMESTIC "CREDIT RATING" REMAINS ONLY AUTHORIZED (BY THE SSMSC) DOMESTIC CREDIT RATINGS AGENCY • ATCI STRONGLY RECOMMENDS TO SSMSC AND TO ROUND TABLE PARTICIPANTS COMPETING, SSMSC-AUTHORIZED CREDIT RATINGS AGENCIES IN UKRAINE

LIST OF ATTACHMENTS

ATTACHMENT 23: 1) Credit Bureau Brochure in Ukrainian 2) Credit Bureau Brochure in English

ATTACHMENT 24: Vlast Deneg Interview

ATTACHMENT 25: ATCI Draft Law Credit Ratings

G. GENDER – Ukraine

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 January 1 through March 31, 2009

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

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

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

- Examine the program to ascertain whether if there are any provisions that could differentially discourage persons of one sex or another from participating;
- Inquire about how program outreach is conducted to understand whether if these procedures may be differentially affecting participation by gender;
- Examine the actual patterns of participation by gender in selected programs, to the extent permitted by the data; 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.

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

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – GENDER UKRAINE

- TO DATE, THERE ARE 95 CLS GRADUATES, 48 (51%) WOMEN, 47 MEN IN UKRAINE; CERTIFICATE CEREMONY FOR THE NEW GRADUATES TO TAKE PLACE EARLY NEXT QUARTER
- TO DATE, THERE ARE 113 CML GRADUATES, 54 WOMEN (48%), 59 MEN IN UKRAINE; CML COURSE POSTPONED THIS QUARTER DUE TO LACK OF RESPONSES

III. EXECUTIVE SUMMARY – GENDER UKRAINE

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

In Leasing, a number of participants in CLS training included women. All ATCI training and professional development strives for gender balance during the invitation process as well as in delivery of content. Post - event analysis is conducted to understand the reasons for underweighting when it occurs.

The Project's full-time staff includes 11 women out of 21, some of whom have professional and technical skills in finance and law.

IV. ADMINISTRATIVE ISSUES – GENDER UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – GENDER UKRAINE

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Partner with Woman – run organizations (CLC & UAB)	• ATCI IS WORKING CLOSELY WITH THE ASSOCIATION OF UKRAINIAN BANKS, THE COMMERCIAL LAW CENTER, IBSER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY RELATED TO PRODUCT AND THE DEVELOPMENT OF SERVICES.
2. Increasing the role of women in the financial sector through training and /or other initiatives	• 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 208 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS IN UKRAINE; THERE IS A TOTAL OF 102 THAT ARE WOMEN, OR 49.04%. • IN MOLDOVA, WHERE ATCI HAS A PROJECT, THER IS A TOTAL OF 131 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS; OF THIS TOTAL, 82 (OR 63%) ARE WOMEN.
3. Gender and cultural sensitization training	• GENDER SENSITIVITY IS PRACTICED DAILY BY ALL ATCI STAFF DURING EVERY STAFF MEETING AND HIGHLIGHTED AT THE ANNUAL STAFF RETREAT

LIST OF ATTACHMENTS

NONE

- END ATCI UKRAINE-

ACCESS TO CREDIT INITIATIVE MOLDOVA

TENTH QUARTERLY REPORT

January 1—February 28, 2009
Contract Number: 121-C-00-04-00713

CTO USAID/Ukr: Natalia Berezhna
Project Manager: Mohammad Fatoorechie
Chief of Party: Rick Dvorin
Proj. Mgr. USAID/Mold: Corneliu Rusnac
Country Director/Mold: Steve Moody

MOLDOVA (Tenth Quarterly)

A. PROJECT OVERVIEW - Moldova

I. PROJECT DESCRIPTION - EXECUTIVE SUMMARY MOLDOVA

ATCI/Moldova (the "Project") is established under the supervision of ATCI/Ukraine, with a separate Country Director in Moldova reporting to the Chief of Party in Ukraine. The scope of ATCI/Moldova is similar to that of ATCI/Ukraine, yet narrower and more focused regarding the major components and tasks.

The three (3) major components of the ATCI/Moldova project are:

- Mortgage Lending Component;
- Financial Leasing Component; and
- Fixed Income Component.

A fourth component was added in the second quarter, "Development Credit Authority (DCA) Monitoring" Component.

A summary of all components and related activities is presented as **Attachment 1**, ***The Access to Credit Initiative/Moldova Work Plan*****,** up-dated as of February 28*, 2009*. This Work Plan is the newly approved Work Plan for ATCI/Moldova's second year, ending September 2008, yet shows the activities of the first year as well. The Work Plan was approved in January 2008, after lengthy discussions with USAID CTO and Project Manager, along with ATCI COP and Country Director. It is also worth noting that some originally proposed activities, particularly those in the Mortgage Lending Component, are notated "as possible in Moldova" or "as appropriate in Moldova", relating to the macro environment and developments in Moldova which are beyond the scope of the ATCI/Moldova Project. Some of these activities relating to infrastructural items related to mortgage lending in fact have been deleted from the Work Plan.

The objective of the Mortgage Lending Component is to establish a viable, effective and efficient mortgage lending sector in Moldova. This will be accomplished by providing technical, advisory, and training assistance to the National Bank of Moldova and to commercial banks and other financial institutions. A Certified Mortgage Lender (CML) Training Program has been adapted for Moldova and presented in order build the capacity of commercial banks and other financial institutions to undertake mortgage lending using standardized, transparent procedures for both borrowers and lenders. Additionally, technical assistance has been provided to commercial banks and financial institutions to lower the risks associated with mortgage lending and improve the transparency of mortgage lending practices. Other tasks and sub-tasks are described in the "Mortgage Lending" section of this Report, under "Description and Status of Tasks".

The objective of the Financial Leasing Component is to create a supportive environment for modern financial leasing. This will be achieved by building the capacity of leasing companies through training and consulting; provision of training for potential lessees, farmers, regulators, and other interested parties, such as vendors, banks; consulting potential foreign investors in the sector; and conducting public awareness efforts. A Certified Leasing Specialist (CLS) Training Program has been adapted for the Moldovan environment presented to leasing professionals, potential leasing professionals, and to training providers for their subsequent delivery of the CLS training program in Moldova.

It is most important that activities of this Project have a viable and beneficial impact on activities directly and even indirectly related to those described in the Work Plan. A key goal for both of the components mentioned above is to ensure continuity of the training programs after this Project ends via the "train the trainer" methodology. In this regard, ATCI/Moldova has selected or will be selecting local training providers to carry on the training and certification programs according to international standards. The training provider for the CLS program has been selected, along with a back up provider; trainers from these providers have attended the CLS courses.

The objective of the Fixed Income Component is to expand the availability of capital to corporate borrowers through the issuance of corporate bonds. Beginning in 2002, there have been only a few corporate bond issuances. A total of 11 companies have issued 13 bonds (two companies conducted 2 bond issuances) for a total of 38 million Lei, or about $3.8 million at current exchange rates. In fact, except for one bond issuance, all issuances were initiated with convertible (to equity) features, to facilitate the takeover and merger of the company.

The project has continued to work with the National Commission of Financial Market (NCFM), i.e., the newly transformed Mega Regulator, to ease the legislative and regulatory burdens on bond issuance. At the same time, the project has helped build the capacity of and provide action plans for the National Securities Commission in its transformation as Mega Regulator for Non-Bank Financial Institutions, which took place in July 2007, after the Law on the National Commission of Financial Market was adopted. Concerns such as transparency and disclosures of issuers will be the main focuses for bond development while the capacity building elements will focus on legislative reform and regulatory and enforcement activities of the Mega Regulator.

The component of the Development Credit Authority Monitoring activities, which was suggested to be added by USAID as a follow up to a previous (BIZPRO) USAID project, was in fact added in late February 2007. The DCA provides partial loan guarantees for private sector investments/loans in Moldova, through 6 commercial banks and the Rural Finance Corporation. The DCA-related activities of the Project are "on-going" for the most part, and include (1) monitoring how the financial institutions are utilizing the partial guarantees; (2) monitoring how these institutions are submitting claims; (3) assisting the institutions in completing surveys; (4) helping the financial institutions to prepare semi-annual reports for USAID; and (5) verifying the reports of the financial institutions that are submitted through the credit monitoring system.

This is the last quarterly report of ATCI Moldova, with the close of the Project on February 28, 2009. The draft Final Report of ATCI Moldova has been submitted to USAID and discussed with the COTR of USAID/Ukraine and the USAID Project Manager in Moldova; the Final Report of ATCI Moldova will be contained in the Final Report of ATCI Ukraine in September 2009.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS - EXECUTIVE SUMMARY MOLDOVA

- ABM CONSULTING COMPLETES FIRST COMMERCIAL CERTIFIED MORTGAGE LENDER TRAINING COURSE
- INSURANCE EXPERT CONDUCTS ASSESSMENT OF MORTGAGE TERM LIFE INSURANCE PRODUCTS
- GLOBAL FINANCIAL CRISIS STYMIES ATCI MORTGAGE MARKET ASSESSMENT
- ATCI PUBLISHES GUIDE TO ISSUING MORTGAGE COVERED BONDS IN MOLDOVA
- FINANCIAL LEASING COMPONENT CLOSES
- ATCI PRESENTS COMPLETED DRAFT BOND REGULATION TO CHAIRMAN OF NATIONAL COMMISSION FOR FINANCIAL MARKETS
- ATCI COUNTRY DIRECTOR MEETS WITH WORLD BANK REPRESENTATIVE ON NCFM REFORM PROJECT
- ATCI COUNTRY DIRECTOR MAKES PRESENTATIONS ON GLOBAL FINANCIAL CRISIS

III. PROJECT ACTIVITIES AND EVENTS DURING THE QUARTER UNDER REVIEW – EXECUTIVE SUMMARY MOLDOVA

Mortgage Component

This section summarizes project activities and events which occurred during the quarter under review. The activities and events are described in greater detail in the Component Reports which follow the Executive Summary. The status of each Task and Defined Activity in the Work Plan is set forth in the Tables accompanying the Component Reports.

Primary Market

Certified Mortgage Lender Training

During the quarter under review, **ABM Consulting**, the commercial affiliate of the **Moldovan Association of Banks**, completed the first commercial Certified Mortgage Lender training program in Moldova.

As anticipated, interest in the training program on the part of banks was not overwhelming because most banks are currently not writing mortgages. ABM Consulting decided to proceed with the course for only eight paying

participants in order to gain experience in organizing the program and because use of the premises (the ATCI third floor conference room) was free of charge. The course essentially breaks even.

ABM Consulting's report on the last module completed during the quarter under review appears as ***Attachment 2, ABM Consulting Report on CML Training.***

Assessment of Mortgage Term Life Insurance Market

A significant player in the Moldovan mortgage market during 2007 and the first half of 2008 complained to ATCI that it was unable to get mortgage term life insurance which covered borrowers in the event of death from any cause. Mortgage life insurance is not a mandatory product, but it is prudent for lenders to require a term life insurance policy on the primary borrower that pays the lender the outstanding balance of the mortgage in the event of the borrower's premature death. The primary benefit for the lender is not really the payment itself but rather the fact that the lender circumvents eventual foreclosure on the deceased's widow and children, which is socially distasteful and, to say the least, bad publicity for the lender.

ATCI investigated the insurance market and found that, indeed, a mortgage term life insurance product that pays benefits in the event of death from any cause was not available in Moldova. ATCI, however, could not identify the reason why such a product did not exist. ATCI, therefore, recruited an insurance expert to delve deeper into the matter. After a week of site visits and interviews and a thorough review of Moldovan insurance law, the insurance expert concluded that said product does not exist because the law prohibits the creation of "combined" insurance companies—that is, companies licensed to write both general and life insurance policies. The expert's report is appears as ***Attachment 3, Insurance Protection for Mortgage Lending in Moldova.***

Accidental death is an event covered by general insurance; death from any cause other than accident is an event which can be covered only by a life insurance policy, the reserves for which must be calculated by an actuary and sequestered from the reserves of general insurance products. Only "combined companies" can issue combined general insurance and life insurance products. Moldovan insurance law prevents the establishment of combined insurance companies in order to comply with a recent EU directive. However, that EU directive **grandfathered** existing combined insurance companies, meaning combined insurance can be written in Europe but not in Moldova. Thus, though the needed product could be reinsured by a European insurer (Munich Re, for example), Moldovan companies cannot by law co-insure the retained portion.

So how should Moldovan mortgage lenders handle the risk of the borrower's death by any cause? Actuarially, the answer is nothing. The cohort of mortgage borrowers is such a small sub-set of the population and it is so self-selected that the risk of loss from the death of the main borrower is almost nil. That a non-accidental death occurred at all is something of a black swan—statistically, an extremely rare event.

Secondary Market

A Guide to Issuing Mortgage Covered Bonds in Moldova

During the last quarter, ATCI published *A Guide to Issuing Mortgage Covered Bonds in Moldova,* a comprehensive instruction manual that goes step by step through the process of issuance. The English version of the ***Guide*** appears as **Attachment 4.** Copies of the Guide have been

distributed to banks and non-bank mortgage lenders, the Ministry of Finance, the Ministry of Economy and Trade, the National Bank of Moldova, and the National Commission of Financial Markets.

Financial Leasing

Financial Leasing Component Closes

The one leasing activity planned for the quarter under review was the Annual Leasing Market Survey. However, when poled, potential respondents informed ATCI that they could not release unaudited data. Since audited results are typically not available before April, ATCI decided to abandon the Annual Survey and close the Leasing Component before project termination.

Fixed Income

NCFM Bond Regulation

Early in January, specialists at the Ministry of Economy and Trade completed a review of the draft bond regulation prepared by ATCI. They had no substantive comments. ATCI therefore officially delivered the reviewed document, complete with minor amendments made by ATCI itself, to the National Commission for Financial Markets. The English translation of the bond regulation appears as ***Attachment 5, Regulation Regarding Corporate Bonds Issue, Circulation and Redemption.***

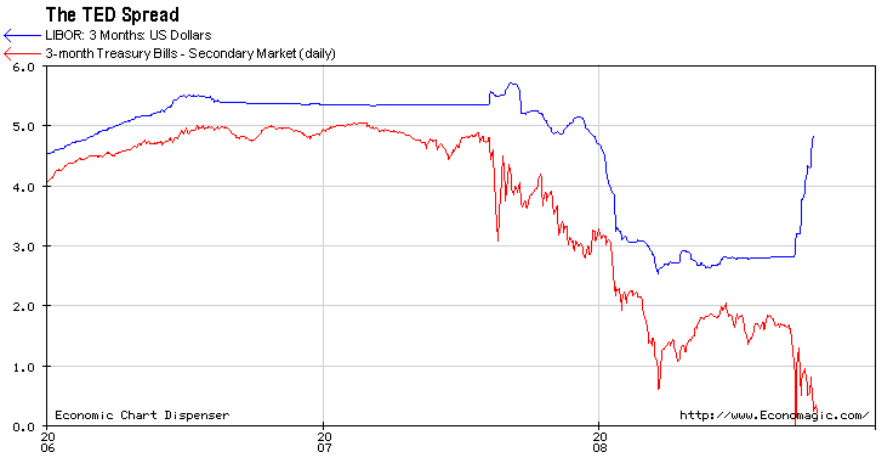
At a subsequent meeting of NCFM's Advisory Council, installation of the new bond regulation was scheduled to begin the in third quarter of 2009.

World Bank NCFM Reform Project

NCFM is the beneficiary of a Dutch Government grant of about USD 2.7 million for continued development and reform measures. The World Bank has been chosen to administer the grant. The Country Director met with Michel Noel, from WB Washington, to discuss the NCFM and the additional reforms. Also attending the meeting from ATCI was Alexandru Savva, whom the Country Director recommended as the 'point man' for the World Bank's questions concerning the Commission.

Global Financial Crisis

During the quarter under review, ATCI Country Director Steve Moody made four additional presentations on the developing global financial crisis for students and faculty at ULIM and ASEM and for members of ACAP in Chisinau and in Balti. The PowerPoint presentation appears as ***Attachment 6, Financial Crisis Presentation.***



Development Credit Authority Monitoring

There were no DCA-related activities during the quarter under review.

IV. PROJECT STAFFING – EXECUTIVE SUMMARY MOLDOVA

The following are personnel of ATCI/Moldova engaged in Project activities this quarter:

- Steve Moody, Country Director
- Mariana Botezatu, Mortgage Advisor
- Tamara Burca, Translator/Interpreter
- Mihail Gherghircic, Financial Analyst
- Alex Levit, Driver
- Stanislav Sapa, Senior Attorney
- Alexandr Savva, Senior Attorney
- Alisa Savva, Office Manager/Accountant

During the quarter, the following short term technical advisors were present:

- James McLaren, Insurance Expert, January 25-30
- Rick Dvorin, COP, ATCI, February 16-20

V. ADMINISTRATIVE ISSUES – EXECUTIVE SUMMARY MOLDOVA

The Access To Credit Initiative/Moldova officially closed on 27 February 2009.

B. MORTGAGE LENDING - Moldova

I. COMPONENT DESCRIPTION – MORTGAGE LENDING MOLDOVA

The primary purpose of the ATCI/Moldova Mortgage Lending component is to develop the primary and secondary mortgage markets with their associated infrastructure, as far as possible and as appropriate in Moldova. Primary market development involves legislative 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 the structuring of mortgage-backed bonds with the appropriate legal environment for issuance.

A secondary goal of the Project related to Mortgage development is assisting in the development of a Credit Information Company, i.e., Credit Bureau. The Project intended to participate in this endeavor only after a Credit Bureau Law that is acceptable to USAID is adopted, as stated in the Project's SOW. To date, this law recently was adopted by the Parliament (May 29, 2008 (122-XVI)) and finally was published in the Official Monitor on July 29, 2009.

II. SIGNIFICANT EVENTS – MORTGAGE LENDING MOLDOVA

- ABM CONSULTING COMPLETES FIRST COMMERCIAL CERTIFIED MORTGAGE LENDER TRAINING COURSE
- INSURANCE EXPERT CONDUCTS ASSESSMENT OF MORTGAGE TERM LIFE INSURANCE PRODUCTS
- GLOBAL FINANCIAL CRISIS STYMIES ATCI MORTGAGE MARKET ASSESSMENT
- ATCI PUBLISHES GUIDE TO ISSUING MORTGAGECOVERED BONDS IN MOLDOVA

III. TECHNICAL SUMMARY – MORTGAGE LENDING MOLDOVA

Primary Mortgage Market

FIRST COMMERCIAL CERTIFIED MORTGAGE LENDER TRAINING COURSE

During the quarter under review, **ABM Consulting**, the commercial affiliate of the **Moldovan Association of Banks**, completed the first commercial Certified Mortgage Lender training program in Moldova.

As anticipated, interest in the training program on the part of banks was not overwhelming because most banks are currently not writing mortgages. ABM Consulting decided to proceed with the course for only eight paying participants in order to gain experience in organizing the program and because use of the premises (the ATCI third floor conference room) was free of charge. The course essentially breaks even.

ASSESSMENT OF MORTGAGE TERM LIFE INSURANCE PRODUCTS

According to the Work Plan, ATCI brought in James McLaren, an international insurance expert, to assess the insurance market, specifically mortgage-related life insurance products, in the Moldovan Market. He reached two conclusions in his report on mortgage life insurance products in Moldova.

First, there are no "combined products" in Moldova, meaning a combined accidental and non-accidental death policy, because the law prohibits the creation of combine insurance companies. Legislators, attempting to bring Moldovan law closer to the directives of the European Union, failed to take into account that the EU directive prohibiting new combined companies also grandfathered existing ones.

Second, Moldova mortgage borrower cohort is such a small and thorough self-selected subset of the entire population that the risk of non-accidental death among the cohort is infinitesimally tiny and probably not worth insuring against at this time.

MORTGAGE MARKET ASSESSMENT

As discussed at some length in the preceding quarterly report, Moldova's mortgage market died a premature death as a result of last year National Bank inflation measures and the global financial crisis. Another casualty of the same phenomena was ATCI's Semiannual Mortgage Market Assessment which received no responses in January and was therefore suspended.

Unfortunately, ATCI was also unable to find a successor organization to conduct the assessment in the future.

GUIDE TO ISSUING MORTGAGE COVERED BONDS IN MOLDOVA

The Introduction to the *Guide to Issuing Mortgage Covered Bonds In Moldova* is excerpted below.

1. Introduction

Covered bonds

Covered bonds are bonds secured by an asset pool on the balance sheet of the issuing institution. Mortgage covered bonds are the largest class of covered bonds; the other classes (see table below) demonstrate that the covered bond structure is flexible enough to include other assets as collateral. The term 'covered bond' has been in use for only about ten years, but the basic structure of covered bonds is said to have first appeared in Prussia in 1769.

COVERED BONDS OUTSTANDING 2007 in EUR million					
	Mortgage	Public Sector	Mixed Assets	Ships	TOTAL
Germany	206,489	677,656	0	4,413	888,558
Denmark	335,849	0	0	8,723	344,572
Spain	266,959	16,375	0	0	283,334
France	63,555	56,403	80,097	0	200,055
Sweden	92,254	0	0	0	92,254
UK	81,964	0	0	0	81,964
Ireland	13,575	51,204	0	0	64,779
Luxembourg	150	33,741	0	0	33,891
Switzerland	29,013	0	0	0	29,013
Austria (e)	4,125	15,200			19,325
Netherlands	15,727	0	0	0	15,727
USA	12,859	0	0	0	12,859
Italy	0	8,063	0	0	8,063
Portugal	7,850	0	0	0	7,850
Czech Republic	7,850	0	0	0	7,850
Norway	6,009	0	0	0	6,009
Hungary	5,987	0	0	0	5,987
Finland	4,500	0	0	0	4,500
Canada	2,000	0	0	0	2,000
Iceland (e)	794	0	0	0	794
Poland	676	0	0	0	676
Latvia	36	0	0	0	36
TOTAL	1,158,222	858,642	80,097	13,136	2,110,097

Covered bonds are considered very safe investments; in Germany and Spain, their yields trade at very narrow spreads over sovereign bonds. The EU directive on communal investments allows funds to hold 25% of bond from one issuer, as opposed to 5% from one issuer for other types of bonds.

Two reasons to issue mortgage covered bonds

There are two reasons to issue mortgage covered bonds:

The first and most often cited is to bridge the gap created by the maturity mismatch between short term deposits and long term mortgages. Maturity mismatch is not a serious issue in Moldova because virtually all mortgages carry a floating interest rate and there is no long term yield curve. However, should a yield curve develop with true differentiation between short term and long term rates, and should banks begin issuing fixed rate mortgages, this issue will take on significance.

The second reason to issue mortgage covered bonds is to diversify the institution's sources of funding away from deposits. Deposits will always be the major source of funding in Moldova, but longer term bonds with staggered maturities help diversify the liability side of the ledger.

About This Guide

This guide is intended for potential issuers, regulators and investors. It explains in some depth the two central features of a covered bond—the mortgage pool and the bondholder representative—and establishes a firm link between these features and the Moldovan laws that support them: namely, Article 24 of the law "On Pledge" and the articles of the Civil Code that deal with representation.

Mortgage pool monitoring by means of an Agreed-upon Procedure is set forth in detail and step-by-step. The role of the bondholder representative in determining what actions to take in the event of a technical default is explained.

The Appendix to the guide contains resource documents which flesh out concepts and procedures not fully explained in the text. The full text of ISRS 4400 (Agreed-upon Procedures) has been included, as has the text of proposed Covered Bond Regulation of the National Commission for Financial Markets. The Appendix also includes a time line and check list for covered bond issuance—the critical path to

issuance, as it were—and examples of a bondholder representative contract and the portion of a prospectus (offering memorandum) dealing with covered bonds.

Although everything is in place for issuance, everything may not be in the right place. That is, potential issuers and regulators will have to work together to see that regulatory procedures fit the needs of issuers while still serving potential investors. The NCFM regulations were written without the benefit of a pilot issue, part of whose purpose is to discover where the bumps are in the road to issuance. There are bumps, but only the first to issue will know exactly where they are. In an ideal world, the first issuer would share that knowledge with both NCFM and his competitor issuers.

Finally, the European Covered Bond Council is the authority of covered bonds. Its website (http://ecbc.hypo.org) is an outstanding resource, and its management will welcome the opportunity to assist Moldovan issuers.

IV. ADMINISTRATIVE ISSUES – MORTGAGE LENDING MOLDOVA

As noted in the Work Plan, activities relating to the development of mortgage-related insurance and the development of the Real Estate and Appraisal Associations have been deleted. Only an assessment of mortgage-related life insurance products was conducted, according to the Work Plan.

V. DESCRIPTION AND STATUS OF TASKS (RELEVANT TO WORK PLAN THIS QUARTER) – MORTGAGE LENDING MOLDOVA

MORTGAGE LENDING COMPONENT

Task A: Implement 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 Moldova: Assess mortgage activity	• COMPLETED PREVIOUS QUARTERS
2. Select candidates from banks and financial institutions engaged in mortgage lending	• COMPLETED PREVIOUS QUARTERS
3. a. Deliver a series of two CML courses in Chisinau during the first year	• COMPLETED LAST YEAR
3.b. Deliver a complete CML program in Tiraspol, as approved by US Ambassador	• COMPLETED PREVIOUS QUARTERS
4. For second year, the third program implemented by training providers which is supervised by STTA-IUE CML trainers	• CMLP IV - THE SECOND PROGRAM IMPLEMENTED BY TRAINING PROVIDER (ABM CONSULTNG) AND THE FIRST PROGRAM DELIVERED ON COMMERCIAL BASIS. • COURSES I AND II OF CML PROGRAM IV DELIVERED IN THE PREVIOUS QUARTED (NOVEMBER 25–28, 2008 AND DECEMBER 16–19, 2008) • COURSE III OF CML PROGRAM IV DELIVERED – FEBRUARY 9-12, 2009

	• 19 TRAINEES FROM 7 INSTITUTIONS, INCLUDING FROM 5 BANKS, 1 AUDIT COMPANY AND NATIONAL CMMISSION FOR FINANCIAL MARKET, PARTICIPATED IN THE PROGRAM; 19 ATTENDEES PASS EXAMS III.
5. Conduct assessment of current mortgage activity and impact assessment of Certified Mortgage Lender Program (CMLP) on the mortgage lenders and on their lending practice	• SELF ASSESSMENT SURVEY SENT TO ALL PARTICIPANTS IN CML PROGRAM IV.
7. Deliver specialized mortgage trainings related to above and legal framework, if applicable and as needed.	• MEETING WITH EBRD INTERNATIONAL TEAM (January 15, 2009). DISSCUS ON THE CURRENT STATUS OF MORTGAGE LENDING IN MOLDOVA AND EBRD PROJECT ON MORTGAGE LEGAL FRAMEWORK IMPROVEMENT • MEETING WITH MR. LOBOR KRKOSKA, Head of EBRD/Moldova Office (January 22, 2009)

Task B: Assist Banks in Undertaking Mortgage Lending

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Promote standardized rules, procedures, documentation for retail mortgage lending in Moldova	THESE ACTIVITIES CONTINUED IN THIS QUARTER: • MEETINGS HELD WITH: THE NATIONAL BANK OF MOLDOVA (January 28 and February 3, 2009): MRS.TABARTA – VICE-GOVERNOR MR. MUSTEATA – DIRECTOR OF BANKING REGULATION AND SUPERVISION DEPARTMENT NATIONAL COMMISSION FOR FINANCIAL MARKET (January 31, 2009)L: PRESIDENT AND COMMISSIONERS MOLDOVA – AGROINDBANK (January 28 and 29, 2009) PRESIDENT AND WORKING GROUP PRIME CAPITAL (January 27 and 30, 2009) MRS. VICOL – GENERAL MANAGER FINCOMBANK (January 27, 2009) DISCUSSING AND PROMOTING STANDARDIZED RULES, PROCEDURES AND DOCUMENTATION
2. Select candidate banks and financial institutions for on-site assistance (On-going), and as requested.	• DELIVERY OF TA; SEE POINT 1 ABOVE, AS REQUESTED
3. Provide on-site technical assistance (On-going)	• PRESENTATION ON GLOBAL FINANCIAL CRISIS – BAILOUT PLAN DELIVERED FOR - INTERNATIONAL FREE UNIVERSITY OF MOLDOVA STUDENTS (February 10, 2009) - CMLP IV ATTENDEES (February 11, 2009)

	- ACAP (February 17, 2009) • ON-SITE CONSULTANCY FOR REGULATORY BODIES: VICE GOVERNOR AND TEAM OF NATIONAL BANK OF MOLDOVA; NATIONAL COMMISSION FOR FINANCIAL MARKET. • AD HOC TA VIA EMAIL AND TELEPHONE

Task C: Develop Mortgage-Related Life Insurance Products "as possible in Moldova"

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Assess legal and regulatory framework	• WORK COMMENCED IN PREVIOUS QUARTERS, CONTINUED IN THIS QUARTER WITH STTA ASSISTANCE: STTA: JAMES MCLAREN MISSION IN MOLDOVA (JANUARY 26-30, 2009) • MEETINGS HELD WITH: VICTORIA ASIGURARI (INSURANCE COMPANY) (January 26, 2009): MR. LUNGU – GENERAL MANAGER DONARIS GROUP (INSURANCE COMPANY) (January 26, 2009) MR. UNGUREANU - GENERAL MANAGER MOLDASIG (INSURANCE COMPANY) (January 26, 2009) MR. CUSNIR, HEAD OF INSURANCE OF GOODS DEPARTMENT FINCOMBANK" (January 27, 2009) MR. GRECENIUC, HEAD OF LEGAL DEPARTMENT MORTGAGE AGENCY PRIME CAPITAL (January 27, 2009) MRS. VICOL – EXECUTIVE DIRECTOR NATIONAL BANK OF MOLDOVA (January 28, 2009) MRS. TABARTA, VICE-GOVERNOR MOLDOVA AGROINDBANK (January 28, 2009) MRS. POLUSTANOVA, HEAD OF NEW PRODUCT DEVELOPMENT DEPARTMENT
2. Assess existing actuarial data (mortality tables)	• STTA SUPPORT
3. Identify candidate insurers	• STTA SUPPORT
4. Develop term sheet and rate structure	• STTA SUPPORT

Task E Develop a Mortgage-Backed Securities Capability (see Fixed Income Component below) "as possible in Moldova"

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Establish Legal Working Group to assess legal basis and regulatory framework	• COMPLETED PREVIOUS QUARTERS
2. Draft legal provisions as needed	• WORK COMMENCED IN PREVIOUS QUARTERS, CONTINUED THIS QUARTER • DRAFTING THE PROVISIONS RELATED TO MORTGAGE SECURITIES TO BE INCLUDED IN NCFM REGULATION ON CIRCULATION AND REGISTRATION OF BONDS
3. Promote legal provisions to professionals, regulators, Ministries, etc.	• WORK COMMENCED IN PREVIOUS QUARTERS, CONTINUED THIS QUARTER • CONTINUE DISCUSSION WITH THE NATIONAL BANK OF MOLDOVA, NATIONAL COMMISSION FOR FINANCIAL MARKET ON COVERED MORTGAGE BONDS. • PRESENTED TO THE NATIONAL BANK OF MOLDOVA THE MAIN PROVISIONS OF THE DRAFT OF NEW NCFM REGULATION ON CIRCULATION AND REGISTRATION OF BONDS, ELABORATED WITH ATCI SUPPORT (February 3, 2009)
4. Select candidate issuer(s)	• COMPLETED PREVIOUS QUARTERS • REGULAR MEETINGS WITH TOP LEVEL MANAGEMENT AND INTERNAL WORKING GROUP OF MOLDOVA - AGROINDBANK.
5. Conduct portfolio analysis	• COMPLETED PREVIOUS QUARTERS
6. Develop standardized indenture	• DISCUSSION WITH MRS. VRABIE, THE PRESIDENT, ON BONDHOLDERS REPRESENTATIVE
7. Draft investment memorandum	• TO BE DONE WHEN THE ISSUER HAS THE FINAL DECISION ON MORTGAGE BONDS ISSUANCE
8. Registration and Listing	• TO BE DONE WHEN THE ISSUER HAS THE FINAL DECISION ON MORTGAGE BONDS ISSUANCE
9. Identify potential investors	• PROJECT HELD ON AND OFF-SITE MEETINGS WITH POTENTIAL INVESTORS AND OTHER FINANCIAL INSTITUTIONS
10. Conduct "road show"	• TO BE DONE WHEN THE ISSUER HAS THE FINAL DECISION ON MORTGAGE BONDS ISSUANCE
11. Price and place issue	• TO BE DONE WHEN THE ISSUER HAS THE FINAL DECISION ON MORTGAGE BONDS ISSUANCE

Task F. Facilitate Establishment of a Commercial Credit Information Company (i.e., Credit Bureau) "as appropriate in Moldova"

Assessment of credit bureau status and feasibility of establishment of credit bureau system in Moldova Phase I: Review current status of development of a CIC	**NOTES FOR ACTIVITIES F, G, AND H, ALL RELATING TO ESTABLISHMENT OF COMMERCIAL CREDIT INFORMATION COMPANY, I.E., CREDIT BUREAU:** • THE DRAFT LAW WAS APPROVED BY THE GOVERNMENT ON AUGUST 24, 2007. THE LAW WAS SUBMITTED IN PARLIAMENT ON SEPTEMBER 20, 2007, WAS ADOPTED BY THE PARLIAMENT ON MAY 29, 2008 (122-XVI) AND FINALLY PUBLISHED IN THE OFFICIAL MONITOR ON JULY 29, 2008; WILL **ENTER INTO FORCE – ON MARCH 1st, 2009.** • THE REGULATORY BODY HAS BEEN ESTABLISHED AS OF JULY 2007, THROUGH THE ADOPTION OF THE MEGA REGULATOR LAW • PROJECT IS IN CONSTANT AND ONGOING COMMUNICATION WITH WORLD BANK OFFICERS AND DIRECTOR OF THE COMPETITIVENESS ENHANCEMENT PROJECT IMPLEMENTATION UNIT (PIU) AND MOLDOVAN BANKS ASSOCIATION; WORLD BANK STARTED WORK IN DEVELOPING CREDIT BUREAU OVER TWO YEARS AGO • THE MAIN ACTIVITIES OF TASKS F, G, AND H WERE POSTPONED UNTIL THE LAW ON CREDIT INFORMATION BUREAUS ENTERS INTO FORCE
1. Coordinate disparate groups (providers, users, government) and consolidate interests—overall project coordination	• MEETINGS WITH THE WORLD BANK REPRESENTATIVE TO COORDINATE THE EFFORTS OF DONOR ORGANIZATIONS.
a) Develop and establish linkages with primary international credit bureau operators	• COMPLETED PREVIOUS QUARTERS
b) Execute plan for participation of all banks	• N/A
c) Sponsor visits to potential foreign CB partners	• N/A
d) Secure final buy-in of local data providers and users	• N/A
2. Determine and review CIB development strategy with government and counterparts: review availability, activity, and accessibility of (a) credit info.; (b) other pertinent borrower data; (c) credit data used by financial intermediaries; and (d) credit reporting	• MEETING WITH THE TOP LEVEL MANAGEMENT OF MOLDOVA - AGROINDBANK, THE MAIN DATA PROVIDER, WAS HELD TO DISCUSS THE CURRENT STATUS OF CREDIT BUREAU ESTABLISHMENT IN MOLDOVA AND REVIEW CIB DEVELOPMENT STRATEGY
3. Market best approach for structuring, establishing and operating CIB	• N/A
4. Analyze and coordinate passage of Law	• THE DRAFT LAW WAS APPROVED BY THE GOVERNMENT ON AUGUST 24, 2007. THE LAW WAS SUBMITTED IN

	PARLIAMENT ON SEPTEMBER 20, 2007, WAS ADOPTED BY THE PARLIAMENT IN MAY 29, 2008 (122-XVI) AND FINALLY PUBLISHED IN THE OFFICIAL MONITOR ON JULY 29, 2008. IT WILL ENTER INTO FORCE ON MARCH 1ST, 2009.
a) Seminars with key government ministries (data providers) and public (articles)	• N/A
5. Review and shape regulatory framework; draft and monitor legislation and regulations	• DRAFT LAW ON CREDIT BUREAU WAS EXAMINED IN THE SECOND QUARTER AND A MEMO REGARDING LEGAL TEAM'S OPINION WAS ELABORATED, ADDITIONAL EXAMINATION WAS MADE DURING THE V QUARTER IN ORDER TO SUGGEST INCLUDING SOME SOLUTIONS TO THE PROBLEMS OF LEASING COMPANIES IN THE DRAFT LAW ON CREDIT BUREAUS.

Task G. Build Capacity of Participating Banks to Maximize Benefits of CIC "in Moldova as appropriate"

Phase II: Work with market participants. Overall coordination of activities aimed at the promotion and development of credit bureau	• N/A (SEE NOTES ABOVE, IN TASK F)
a) Consent clause—convince the market, draft the wording of consent clause, recommend consent clause placement in the application form	• N/A
b) Advise on RFP responses and selection process of successful bidder from among CB operators as appropriate	• N/A
c) Reciprocity and access rights (data suppliers and data users)	• N/A
d) Data sharing (positive and negative data, scope of data, data masking, possible payment/data sharing arrangements)	• N/A
e) Work with public record holders (CBs will have to conclude separate agreement with each public record holder)	• N/A
f) Securing involvement of mobile phone operators, insurance companies, credit unions, etc.	• N/A
Phase III: Work with regulators, market education and public awareness efforts	• N/A
a) Shape regulatory debate and assist in drafting CB regulations and licensing requirements	• N/A

b) Market education and public awareness campaign (publication of articles, etc.)	• N/A
c) Regional workshops (to promote CBs and effective use of CB products)	• N/A

Task H. Develop and Prepare Business Plan for CIC "as appropriate in Moldova"

1. Define business and operations plan for CIB	• N/A (SEE NOTES ABOVE IN TASK F)
2. Outline package of technical requirements	• N/A
3. Discussions with government data providers	• N/A
4. Prepare and deliver RFP	• N/A
i) Review business plan with domestic banks and other local investors	• N/A
ii) Review business plan with Bankers' Association and other business groups	• N/A
5. Secure Buy-in to business plan of foreign investors and banks	• N/A

LIST OF ATTACHMENTS

ATTACHMENT 1: *Access to Credit Initiative/Moldova Work Plan*, updated as of February 2009

ATTACHMENT 2: ABM Consulting Report on CML Training

ATTACHMENT 3: Insurance Protection for Mortgage Lending in Moldova

ATTACHMENT 4: Guide to Issuing Mortgage Covered Bonds in Moldova

C. FINANCIAL LEASING - Moldova

I. COMPONENT DESCRIPTION – FINANCIAL LEASING MOLDOVA

This report details events and activities relating to the Financial Leasing Component of the USAID Access to Credit Initiative/Moldova, implemented by the Pragma Corporation, during the period from January 1 through February 27, 2009.

The primary purpose of the Financial Leasing Component is to create a supportive environment for development of modern financial leasing in Moldova. As ATCI/Moldova will provide specific technical, advisory, and training assistance in order to increase access to credit throughout Moldova, whereas Financial Leasing is an efficient alternative to bank financing.

ATCI/Moldova aims to strengthen existing leasing companies. Capacity building consists of training and consulting for lessors, lessees, regulators, and other interested parties, such as vendors, banks, consulting and insurance companies. In addition, ATCI/Moldova will be conducting public awareness efforts and seeking new domestic financial resources for the leasing companies. Besides that ATCI/Moldova is permanently assisting the potential new market entrants by providing them with required information for running feasibility studies and supports them with professional advice.

Moreover, the Financial Leasing Component will be building the capacity of leasing professionals by introducing the Certified Leasing Specialist (CLS) Certification program, a designation for market participants so that they may attain world standards of practice. Consulting by ATCI/Moldova will be provided on an ad hoc basis as well as when determined to meet the needs of the financial leasing companies and industry as a whole.

ATCI/Moldova will support and/or develop the proper legislative and regulatory framework to support the leasing industry and facilitate the entry of foreign capital into the leasing sector.

II. SIGNIFICANT EVENTS – FINANCIAL LEASING MOLDOVA

THERE WERE NO LEASING RELATED ACTIVITIES IN THE QUARTER UNDER REVIEW.

III. EXECUTIVE SUMMARY – FINANCIAL LEASING MOLDOVA

The Leasing Component was discontinued at the end of 2008. ATCI could not conduct its annual leasing market survey because leasing companies will release only audited data which will not be available before the end of March.

IV. ADMINISTRATIVE ISSUES – FINANCIAL LEASING MOLDOVA

The Work Plan for ATCI/Moldova's second year saw the elimination of some activities as originally planned, in particular relating to the major activity under the Leasing Component, "C", Facilitate Import Capital and Know-How to Leasing Industry. Other sub-activities under the "B" and "D" activities as originally planned, were moved to the remaining "A" major activity, "Build Capacity of Market Participants". The Work Plan for ATCI/Moldova's is presented as **Attachment 1**.

V. DESCRIPTION AND STATUS OF TASKS – FINANCIAL LEASING MOLDOVA

(Note: Due to no activity in this Component area for this final quarter, ATCI is summarizing progress and activities from previous quarters)

Task A: Build Capacity of Market Participants

Defined Activity	Progress Made During Quarter/Proposed Future Actions
A. Build Capacity of Market Participants	
1. Polling the financial community for interest in leasing courses from which successful participants will graduate as Certified Leasing Specialists (CLS).	• MANAGED TO ATTRACT LOCAL BANKS AND MICRO-FINANCIAL INSTITUTIONS TO TAKE PART IN THE CLS COURSE, ASIDE THE LEASING COMMUNITY THAT IS WELL AWARE ABOUT THIS TRAINING PROGRAM AND GROUNDED ITS INTEREST BY ACTIVE PARTICIPATION.
2. Assess the Moldovan leasing market and activities and adapt the CLS Program for Moldova	• PROCESSED THE RESULTS OF THE LEASING MARKET SURVEY IN ORDER TO INTRODUCE RELEVANT ADJUSTMENTS AND BRING IN UP-TO-DATE INPUTS INTO RESPECTIVE PARTS OF THE CLS COURSE. • TOGETHER WITH THE TRAINING PROVIDER (ACAP) DEVELOPED AND INTRODUCED IN THE CLS CURRICULUM PRACTICAL CASE-STUDIES.
3. Identify local potential Training Providers to provide Trainers to attend and to eventually administer CLS training program	• PRESENTLY WE CONSIDER ACAP AS THE BEST ALTERNATIVE TO CONTINUE WITH CLS ADMINISTRATION AND FURTHER CERTIFICATION OF LEASING PROFESSIONALS. HAVING GOT OVER 50 ACCREDITED TRAINERS, ACAP IS AN NGO THAT HOLDS A SPECIAL LICENSE FOR PROVIDING TRAINING SERVICES. ACAP WAS INVOLVED IN THE PROCESS OF DEVELOPMENT AND ADJUSTMENT OF THE CLS PROGRAM DURING ALL ITS DURATION AND THEY ACTED AS TRAINING PROVIDER DURING ALL THREE COMPLETE CLS COURSES ORGANIZED IN MOLDOVA.
4. Identify potential members for setting up NGO/Int'l Leasing Association	• DUE TO DIFFICULTY OF SUSTAINABILITY ISSUES FOR A NEWLY CREATED NGO IN MOLDOVA AND RELATIVELY LIMITED NUMBER OF CLS GRADUATES, ATCI PURSUING OTHER AVENUES FOR CLS CONTINUITY – LOOKING AT ACAP AS CLS ADMINISTRATOR: ACTING AS TRAINING PROVIDER AND EXAM CONTROLLER. ANOTHER SOLUTION CONSIDERED BY ATCI IS TO SUPPORT AND ASSIST THE CREATION OF THE MOLDAVIAN LEASING ASSOCIATION,THAT COULD ENSURE THE DESIRED SUSTAINABILITY.
5. Short term expert to visit Chisinau meeting with potential Training Providers and to assist with adapting CLS training course and assisting with setting up Leasing Assn/NGO.	• N/A FOR THIS QUARTER.

6. Initiate process of setting up Moldovan Leasing Assn./NGO	• N/A FOR THIS QUARTER.
7. Develop Strategy for CLS Program for Moldova for Training of Trainers **a) Development of Content/Study-Guide** **b) Develop Training Modules** **c) Develop Examination** **d) Establish Local Training Providers**	• ACAP and ATCI/MOLDOVA DEVELOPED A SUSTAINABILITY PLAN THAT PRESUMES LAUNCHING THE CLS PROGRAM ON COMMERCIAL BASIS. THOROUGH BUDGETING AND BREAK-EVEN ANALYSIS RESULTED IN AN EFFECTIVE PLAN OF CLS COMMERCIAL IMPLEMENTATION THAT MANAGED TO MEET THE MARKET REALITIES AND CONTRIBUTED TO SUCCESSFUL IMPLEMENTATION OF PARTIALLY-SPONSORED CLS PROGRAM.
8. Design and launch leasing training course seminars mainly for professionals but also for Trainers from potential Training Providers.	• ON SEPTEMBER 26 ATCI/MOLDOVA TOGETHER WITH ACAP LAUNCHED THE THIRD CLS COURSE ON COMMERCIAL BASIS (PARTIALLY-SPONSORED). THE PARTICIPATION FEE WAS ESTABLISHED AT 40$ PER MODULE (120$ PER FULL COURSE). BREAK-EVEN POINT WAS ENSURED BY 17 PARTICIPANTS AND DUE TO THE FACT THAT WE MANAGED TO FORM A GROUP OF 23 PARTICIPANTS, ACAP COVERED ADDITIONAL ADMINISTRATIVE EXPENSES AND REGISTERED A PROFIT THAT WOULD SERVE AS A FINANCIAL INCENTIVE IN CONTINUING RUNNING THIS TRAINING PROGRAM. THE GROUP OF TRAINEES WAS FORMED OF 23 PARTICIPANTS REPRESENTING 7 LOCAL FINANCIAL INSTITUTIONS. • DURING THE LAST QUARTER (SEPTEMBER 26-28) THE FIRST MODULE OF THE CLS PROGRAM WAS COMPLETED. THROUGHOUT THE FIRST MODULE WE UTILIZED EXCLUSIVELY LOCAL TRAINING POTENTIAL – ATCI/MOLDOVA STAFF AND ACAP TRAINERS, AVOIDING THAT WAY EXPENSES RELATED TO FOREIGN CONSULTANTS' VISITS. TOPICS TACKLED WITHIN THE MODULE INCLUDED: ▪ WORLD LEASING MARKET: FROM EARLY DEVELOPMENT TO CURRENT SITUATION ▪ LEASING MARKET IN MOLDOVA ▪ THE LEGAL FRAMEWORK FOR LEASING IN MOLDOVA ▪ ACCOUNTING OF LEASING OPERATIONS IN MOLDOVA ▪ FISCAL ASPECT OF LEASING TRANSACTIONS IN MOLDOVA • SECOND AND THIRD MODULES TOOK PLACE IN OCTOBER; CERTIFICATION EXAM SESSIONS IN EARLY NOVEMBER.
9. Implement Outreach Network and Provide Consulting Services	• FINALIZED A DETAILED MOLDOVAN LEASING MARKET RESEARCH FOR THE PERIOD 2006-2007.

a) Hold/Participate in conferences/roundtables on state of leasing industry for government officials, media, and industry participants	• PROVIDED INTERVIEWS FOR A LOCAL ECONOMICAL PERIODICAL ("CAPITAL MARKET") AND A TV STATION ("EU TV") WERE WE DISCLOSED SOME OF THE LEASING MARKET RESEARCH FINDINGS IN ORDER TO INCREASE THE PUBLIC AWARENESS ABOUT LEASING – AS A COMPETITIVE FINANCIAL INSTRUMENT, DESCRIBE THE REAL STATE OF AFFAIRS ON THE LEASING MARKET OF MOLDOVA AND OUTLINE THIS MARKET'S TRUE POTENTIAL.
b)Prepare and distribute educational materials on various aspects of international best practices	• BASED ON THE INFORMATION OBTAINED FROM THE LEASING MARKET RESEARCH, ATCI/MOLDOVA PUBLISHED AND DISTRIBUTED A BROCHURE IN THE FORM OF A NON-TECHNICAL MATERIAL, TARGETING THE LEASING COMPANIES, BANKS, AND OTHER PROFESSIONAL NON-LEASING. IT OUTLINES IN EVERY DETAIL THE CURRENT SITUATION AND MAIN TENDENCIES ON THE LOCAL LEASING MARKET AND DISCLOSES THE MAIN MARKET INDICATORS – ASSESSED BY APPLYING LEASEUROPE METHODOLOGY. • REVIEWED THE "LEASING GLOSSARY" AND PRESENTED ITS FINAL VERSION TO THE LEASING INDUSTRY PROFESSIONALS THAT PARTICIPATED IN ALL THE COURSES OF THE CLS PROGRAM. • UPDATED THE ATCI/MOLDOVA WEB-SITE WITH SPECIFIC LEGISLATIVE EXTRACTS AND OTHER RELEVANT INFORMATION RELATED TO THE LEASING COMPONENT.
c)Provide consulting on organizational and marketing issues	• ORGANIZATIONAL AND MARKETING ISSUES SPECIFIC FOR A LEASING COMPANY ARE BEING THOROUGHLY TACKLED IN THE THIRD MODULE OF THE CLS COURSE THAT IS SCHEDULED TO TAKE PLACE IN THE PERIOD: 17-18 OF OCTOBER.
10. Deliver Seminars for Other Industry Participants **a) Vendors** **b) Potential Lessees** **c) Banks** **d) Government Officials**	• N/A FOR THIS QUARTER.

LIST OF ATTACHMENTS

NONE

D. FIXED INCOME - Moldova

I. COMPONENT DESCRIPTION – FIXED INCOME MOLDOVA

This report provides details on events and activities relating to the Fixed Income component of the USAID Access to Credit Initiative/Moldova, as implemented by the Pragma Corporation, during the period from January 1 through February 27, 2009.

The objective of this activity is to expand the availability of capital to corporate borrowers as an alternative to bank financing, through the issuance of corporate bonds. Additionally, this component includes the activities assisting the development of the National Commission of Financial Market ('NCFM' or the Mega Regulator) as not only a regulator of the capital markets but a Mega Regulator, i.e., regulator of the Non-Bank Financial Institutions. It should be noted that early, in July 2007, the National Securities Commission had formally been transformed into the National Commission of Financial Markets ('NCFM') with the publication of the *Law on the National Commission of Financial Market* in the official monitor.

Besides seeking and assisting companies in the issuance of corporate bonds, tasks will be focused on disclosure and transparency issues and systems related to the bond regulations and enforcement capabilities of the NCFM. Tasks will also include the capacity building of the Mega Regulator in accordance with international best practices of regulators.

II. SIGNIFICANT EVENTS – FIXED INCOME MOLDOVA

- ATCI PRESENTS COMPLETED DRAFT BOND REGULATION TO CHAIRMAN OF NATIONAL COMMISSION FOR FINANCIAL MARKETS
- ATCI COUNTRY DIRECTOR MEETS WITH WORLD BANK REPRESENTATIVE ON NCFM REFORM PROJECT
- ATCI COUNTRY DIRECTOR MAKES PRESENTATIONS ON GLOBAL FINANCIAL CRISIS

III. EXECUTIVE SUMMARY – FIXED INCOME MOLDOVA

Regulatory Reform and Capacity Building

Draft Bond Regulation

A complete draft of corporate bond regulation was presented to the National Commission at the end of last year. The full draft has been translated into English and appears as **Attachment 5.**

World Bank NCFM Reform Project

ATCI Country Director met with Michel Noel of World Bank, Washington, to introduce him to Alexandru Savva as the point man for further discussion of the direction for reforms in the National Commission.

Presentation on Global Financial Crisis

The following narrative of Steve Moody's presentation on the Global Financial Crisis is continued from the previous Quarterly Report.

Part Two: 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	1,585.7	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: Statistical Annex, IMF *Global Financial Stability Report 2008*

In its annual assessment of the world's financial well-being, the IMF generates a table, a portion of which is reproduced above, that helps you put things into global perspective. The first column, **GDP**, is the value of all goods and services produced, and for the most part consumed, in an economy in a given year. The year in this case is 2007. Among the more interesting facts is that Europe, North America and Japan account for 65% of world GDP, 64% of world stock market capitalization, 77% of the world's banking assets and an astonishing 86% of the world's outstanding debt securities. Also of interest is that total debt outstanding (USD 164.6 Trillion), which we get by adding Bank Assets to Total Debt Securities, is two and a half times larger than world stock market capitalization and three times larger than world GDP. It's also clear that, while the US has loads of debt, it is by no means the leader of the pack. That honor goes to the EU; Japan is a distant second. Together, the indebtedness of these three economies accounts for 79% of total world outstanding debt.

Area	Total Debt	% of GDP
World	164.6	302
USA	41.2	299
European Union	71.3	454
Japan	17.0	386

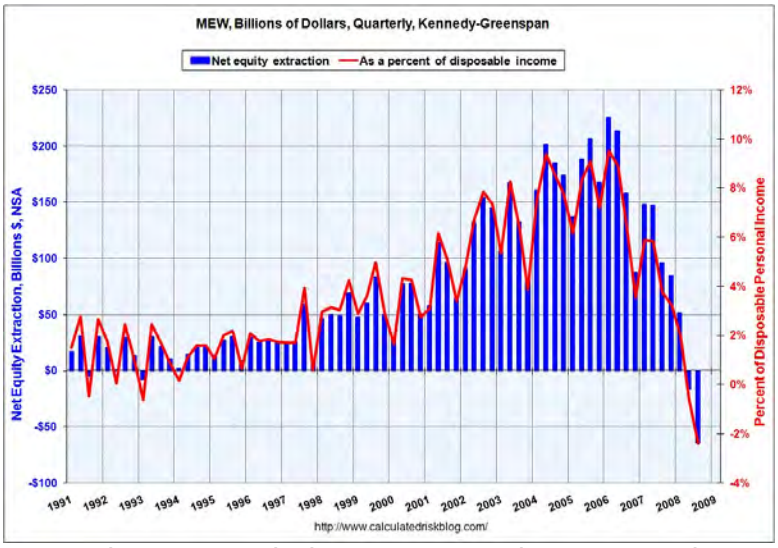
The IMF table was not intended for the use we're putting it to here. We're using it as a proxy for Credit Market Debt Outstanding in the Federal Reserve's *Flow of Funds Accounts* which, unfortunately, is not replicated by central banks in all countries or for the world as a whole. Compared to Credit Market Debt Outstanding, the IMF table double counts some elements of debt and fails to capture others. So the table above is not a perfectly accurate measure of total debt by region, but it's close enough for our purposes. Our purpose is to illustrate that, at the end of 2007, the world was awash in debt of one kind of another.

The relationship of debt to GDP is not particularly straightforward. That's largely because the National Income and Product Accounts used to calculate GDP do not deal directly with **stock** of total outstanding debt in any given year, but with the **flows** of interest, as both income and expense, that emanate from it. In NIPA methodology, any debt in a given year arises from **investment** in structures (plants, houses, public buildings, roads and bridges) by business, private persons and government. This investment in structures is, or should be, financed by a depreciation (**capital consumption**) allowance generated by routine wear and tear, damage to and obsolescence of the existing structural stock and by the **savings** of businesses, private persons, and government. The savings of businesses are **undistributed corporate profits**. More often than not, of course, government runs a **budget deficit**, not a **surplus**. And as to **personal savings**, the chart below says it all. Or at least, a lot.

Disposable Personal Income (DPI) is 'take home pay'—your salary after taxes and Social Security contributions plus interest earned and dividends received. The graph at left charts Personal Savings as a percent of Disposable Personal Income since 1953. From a high of about 11% in 1982, the savings rate has fallen precipitously to less than one percent of DPI from 2004 through 2007. We're certainly not saving enough to cover investment in fixed capital and, as a result, the US has to borrow abroad. Vast sums. In 2007, the US borrowed $720 billion, or about 5.2% of GDP. In 2007, had the personal savings rate been 10.8% of DPI as it was in 1984, it would have covered all the foreign borrowing plus the government's $218 billion budget deficit with funds to spare.

Why don't Americans save more? A glance at the Ten Year Treasury yields at the bottom of page 3 provides part of the answer: since 1982, interest rates have been falling—precipitously at first and then gradually. Lower yields are, of course, a disincentive to save, but that's not the answer. Gradually falling interest rates over a prolonged period are a reliable indicator of financial security. Even prosperity. Good times. American appear to let the goods times roll. During the bad times, on the other hand, Americans save. The chart above shows that during recessions (1981, 1991, 2001) the savings rate ticks up for a year or so. The US savings rate is **countercyclical**. Instead of saving money for some future rainy day, Americans tend to save only after it's started raining. The countercyclical nature of US personal savings is of particular concern to policymakers because it tends to make recessions worse. And just as you would expect, retail sales have collapsed just in time for the Christmas shopping season.

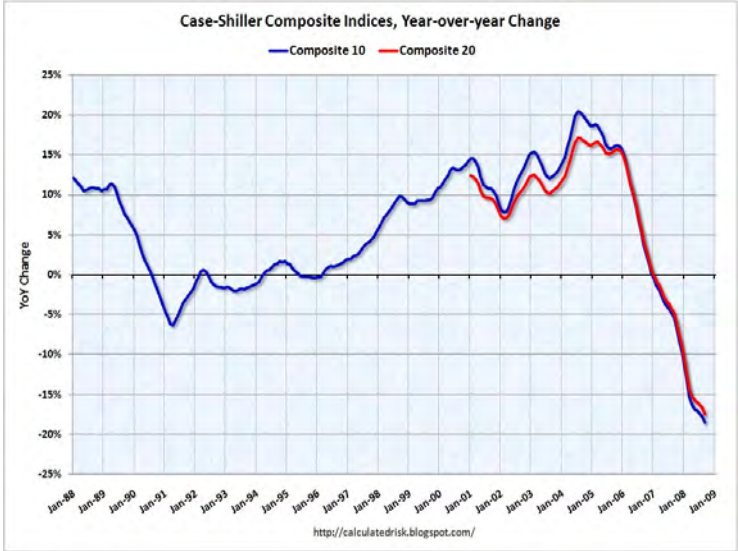
But that's not the whole answer. Go back to the chart of US housing prices on page 1. Housing prices never fall, remember? Until very recently there was more than a grain of truth to that statement. The trend line (in red) rises at an annually compounded rate of about 3%. And as housing prices increase, homeowners build **equity**. At the height of the Housing Bubble in 2006, US housing stock was valued at about $22.0 trillion, half of which was homeowner equity. If you have $11.0 trillion of equity in your home, do you need to save?



Before you answer that question, consider this. As stated earlier, between 2000 and 2007, US financial institutions originated more than $20.0 trillion of mortgages. For one thing, that means about 90% of mortgages currently out-standing were originated after 2000 at relatively high housing prices and relatively low interest rates. About $4.6 trillion of the mortgages originated in the period were 'purchase mortgages;' that is, people actually bought a home with the proceeds. The remainder were refinancings ('refis'). The higher prices and lower interest rates meant that most homeowners had more equity at the new price than even

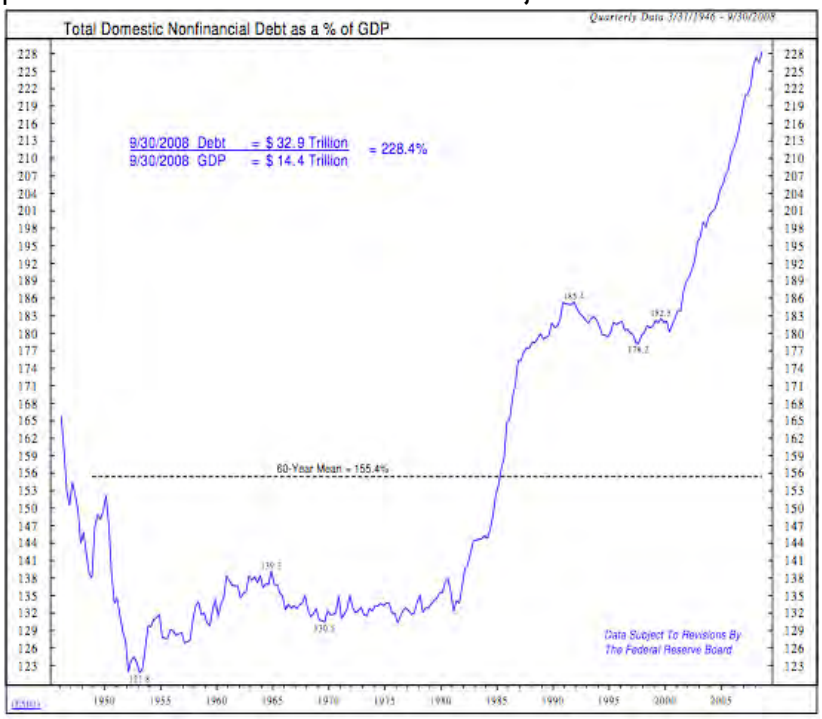
the most conservative of lenders required as down-payment. In those cases, the lender allowed the borrowers to 'cash out'—that is, take the excess equity out of the mortgage in cash. This phenomenon is called Mortgage Equity Withdrawal (MEW). The chart above displays MEW quarterly in billions of dollars. Between 2000 and 2007, borrowers cashed out on more than $4.1 trillion of home equity.

Now let's say you refinanced your home in 2006 at the peak of the Bubble. The house you paid $200,000 for a few years ago was at the peak worth a bubbly $300,000. On conventional prime terms, the bank could lend you 80% of appraised value, or $240,000, with which you would retire the outstanding balance of, say, $150,000 on the original mortgage. That leaves a difference of $90,000, but the bank requires a 20% down payment, or $60,000, and you originally paid in only $40,000. So you leave $20,000 in home equity and cash out only $70,000.



Two years later, which is now, the value of your house has fallen, say, 20% from the peak to $240,000. The bank has a substandard loan on its books because LTV is not 80%, as required, but closer to 100%. And you have no home equity unless there's something left over from the $70,000 you cashed out. The cash out was real (you spent the money), but the market value of your house wasn't. From the peak of the Housing Bubble, homeowners have lost more than $5.0 trillion in home equity.

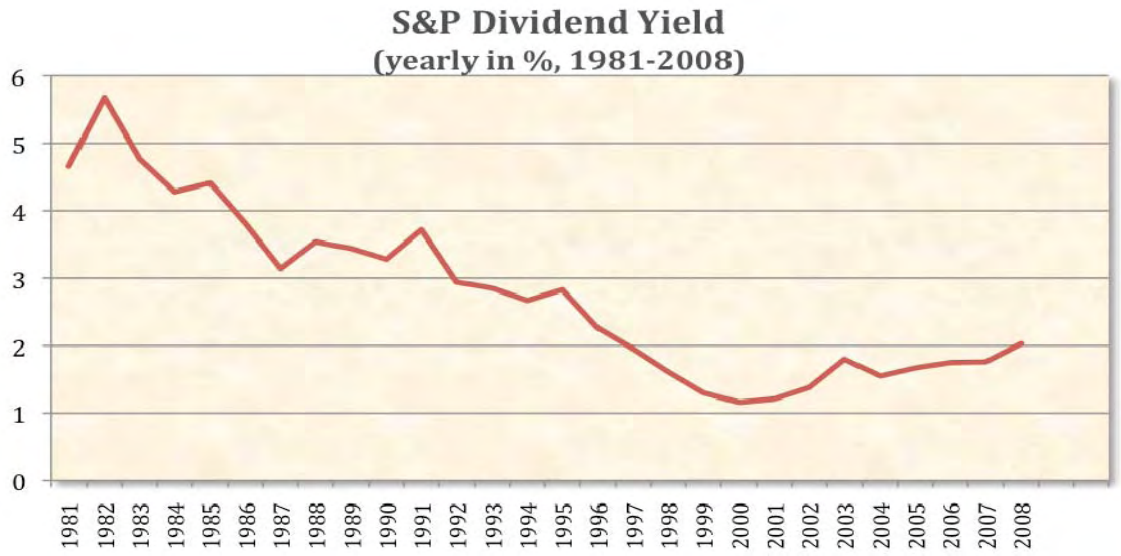
Mortgage Equity Withdrawal is in some ways analogous to the big paychecks and year-end bonuses the high rollers on Wall Street took home the last couple of years. The paychecks and bonuses were real, but the profits that paid them were not. At least, not anymore. Banks have lost more than a trillion dollars on subprime mortgage lending and related securities, wiping out several years of mind-boggling profits. Presumably, the high rollers still have their bonuses. Let's hope so because most of them have lost their jobs.



From 2000 to the end 2007, net household debt outstanding increased 2.65 times to $9.7 trillion, or 95.4% of disposable personal income. Americans went on a consumption binge financed, as it turns out, at mortgage rates of interest. Mortgage rates were not only historically low, they were also considerably cheaper than rates on **consumer credit**—car loans, credit cards and personal loans. Mortgage Equity Withdrawal created an enormous incentive to consume. Consumer credit didn't languish. It grew 1.65 times in the same period, but as a percentage of total household debt outstanding, it fell from 24.2% in 2000 to 18.4% at the end of 2007. Household debt today is overwhelmingly mortgage based . . . scant comfort with housing prices falling.

But Mortgage Equity Withdrawal didn't go entirely to consumption; Alan Greenspan and Jim Kennedy, the authors of MEW methodology at the Federal Reserve, estimate that about fifty percent of MEW went toward the acquisition of non-real estate assets, primarily stocks since bond yields were, you'll recall, too low to attract a large investment following in the US. Between 2000 and 2007 (inclusive), MEW totaled $4.1 trillion, so we'll assume that about $2.0 trillion went toward the purchase of financial assets during that period. Though it's hard to put a number on it, we can likewise assume that some of the decrease in savings also went to the acquisition of financial assets.

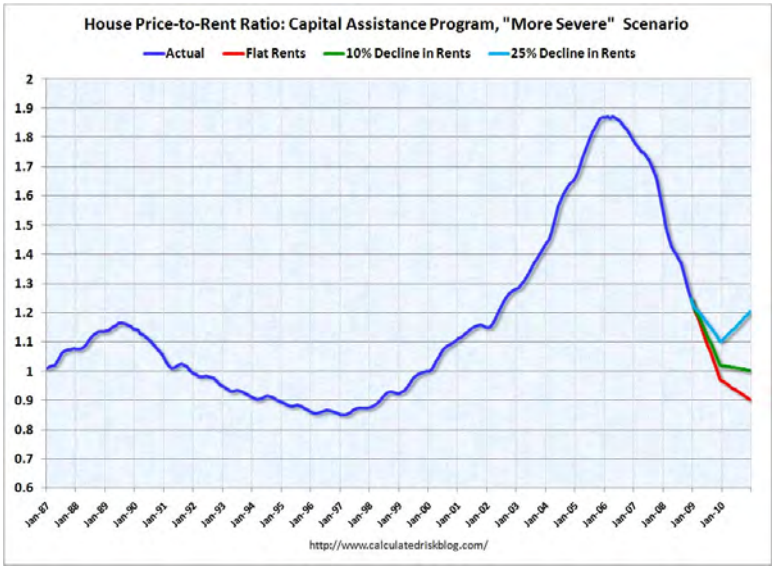
The relationship between debt and GDP may not be straightforward, but the relationship between debt and financial assets is: to wit, financial assets must generate sufficient cash flow to service the debt used to acquire them. Simply put, stocks and bonds must pay dividends or interest greater than the interest rate on brokers' margins, and the rental value of housing and commercial real estate must be higher than the interest rates on mortgages plus some reasonable real property amortization rate. When those conditions are not present, investors in stocks, bonds and real estate rely exclusively on capital gains to finance their debt, meaning of course that asset prices must continue rising.



But when asset prices rise continuously, ordinary investment mathematics turns insidious. Like bond yields, stock dividend yields move in inverse proportion to price. Thus, as the price of a stock or a bond rises, its yield falls as a percentage of the current price, forcing leveraged investors to the short end of the yield curve to finance 'long term' investments. Investor focus on the short end of yield curve translates into corporate focus on short term results: corporate boards are loathe to raise dividends—after tax expenses that reduce profits.

Likewise, as housing prices rise, rental value falls as a percentage of price. In fact, of course, real estate is much less liquid than either stocks or bonds, and the rent or own calculation rarely plays a significant role in housing speculation. At the height of the housing bubble in 2006, housing prices were trading at almost two times fair rental value. (See chart below.)

It should be clear that leveraged asset prices can't rise forever because at some point investors have to realize capital gains in order to service the debt used to acquire the assets. It's a closed system: if dividends, interest payments or rents are insufficient to service the debt, the asset has to be liquidated and the debt paid down. In some cases, of course, one asset must be liquidated to pay down the debt collateralized by another (less liquid) asset. And in some cases, especially housing, the debt cannot be retired without a loss. And when assets in all asset classes must be liquidated at once, the losses can be of such magnitude that all of the debt outstanding cannot be paid down in its entirety. That appears to be the current case.



The figure, below, is an attempt to determine just how much debt reduction—or de-leveraging—needs to occur to restore the **debt to asset value** ratio to its end 2007 level. The asset tables assume the following declines in asset values between end 2007 and beginning 2009: stocks down 50% (from the highs in October 2007, housing values down 40% (from the highs early in 2007) and commercial real estate (CRE) down 40% (from the highs early in 2008). The table also ignore Financial Sector debt (estimated to be approximately $7.0 trillion), which probably represents the excess leverage in the system as a whole. However, much of that debt is 'off balance sheet.' The calculations in the table suggest that, if current outstanding debt is reduces to levels commensurate with the debt to asset value ratio at the end of 2007, some $11.7 trillion in debt must be written off or paid down. Debt destruction is a long, painful process involving, among other things, bankruptcy and default on corporate debt. Banks will bear the lion's share of the defaults on private debt, including mortgages, but bondholders will also endure a lot of trauma.

2007				2009			
Assets		Debts		Assets		Debts	
Shares	19.9			Shares	10.0		
Housing	21.5	Household	13.8	Housing	15.0	Household	13.8
CRE	5.3	Business	10.6	CRE	3.2	Business	10.6
TOTAL	46.4	TOTAL	24.4	TOTAL	28.2	TOTAL	~~24.4~~ 12.7
		Net Worth	22.0			Net Worth	3.8

2007 Debt to Asset Value Ratio: 24.4/46.4 = 0.52

2009 Debt at 2007 DAV Ratio: 24.4*0.52 = 12.7

USD 11.7 Trillion must be paid off or written off

IV. ADMINISTRATIVE ISSUES – FIXED INCOME MOLDOVA

NONE

V. DESCRIPTION AND STATUS OF TASKS – FIXED INCOME MOLDOVA

Fixed Income Component--Moldova

Defined Activity	Progress Made During Quarter/Proposed Future Actions
A.1. Review and assess legislation (e.g., pledge law, bankruptcy law, trust law, securities market law) for gaps and needs re: issuance of corporate and mortgage bonds	COMPLETED
A.2. Work with the National Securities Commission (or its evolved role as Mega Regulator, "MR") building capacity for understanding and implementing issuance of bonds and regulating the markets (Note: NSC became the NCFM in July 2007)	DISCUSSED AND DELIVERD ATCI-DRAFTED BOND REGULATION
A.3. Analyze financials of potential issuers for issuance of corporate bonds (see Task B below)	N/A FOR THIS QUARTER
A.4. Work with the NSC/Mega Regulator in capacity building regarding transparency and disclosure issues in bond related regulation	COMPLETED
A.5. Review and provide recommendations on regulations re: investment advisors and ratings agencies	COMPLETED
A.6. Analyze authority of MR re: investigative powers and enforcement abilities; make recommendations for strengthening capabilities	COMPLETED
A.7. Work with CNVM in helping them develop into a Mega Regualtor; provide time bound action plan for activities necessary for implementation	COMPLETED
A.8. Analyze laws, regulations, and practices for compliance with int'l. standards, making recommendations for activities	COMPLETED

A.9. Analyze and assess private pension fund law and system (legal and institutional framework) in Moldova (added Jan 2008)	COMPLETED
B.1. a Select top 10 candidates for issuance, including those companies which have already issued corp. bonds.	COMPLETED
B.1. b Meet with executives of these companies for their understanding and desire to issue bonds	N/A FOR THIS QUARTER
B.1. c Presentation of bond workshops aimed at potential issuers as well as potential buyers of bonds, for higher education, discussing possible benefits and potential risks	N/A FOR THIS QUARTER
B.1.d. Organize and hold International Bond Conference (added Sept.2007)	COMPLETED
B.2 Assist companies (at least 3) in issuance of corporate bonds	N/A FOR THIS QUARTER

LIST OF ATTACHMENTS

ATTACHMENT 5: Regulation Regarding Corporate Bonds Issue, Circulation and Redemption

ATTACHMENT 6: Financial Crisis Presentation

E. DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING - Moldova

NOTE: This Task was not originally included in the Statement of Work for ATCI/Moldova. However, due to desires of the local USAID officials along with discussions with this Project, this was included and approved as an additional component. The Component is comprised of monitoring activities over the seven partner financial institutions of the DCA, six commercial banks and the Rural Financial Corporation.

I. COMPONENT DESCRIPTION - DCA MONITORING MOLDOVA

This report provides details on events and activities relating to the Development Credit Authority Monitoring component of the USAID Access to Credit Initiative/Moldova, as implemented by the Pragma Corporation, during the period from January 1 through February 27, 2009.

The objective of this activity is to monitor the activities of the six commercial banks and the Rural Financial Corporation (RFC) regarding their loans that have qualified to be (partially) guaranteed by the Development Credit Authority. The activities of the Project require ongoing monitoring activities, which include answering partner institutions' relevant questions, conducting meetings to help prepare reports and to verify claims and reports, preparing reports for USAID, and verifying reports and claims of partner financial institutions.

The Project believes that loan guarantees through DCA can be utilized to develop institutions' activities relating to the other components of ATCI/Moldova, i.e., guaranteeing loans for mortgages (either as a portfolio or on an individual basis), guaranteeing loans for leasing (either as a portfolio or on an individual basis), and guaranteeing (up to 50%) the performance on bond issuances. The Project determined that if a specific use with a specific partner institution can be identified for the loan guarantee program, the Project will then pursue its utilization.

A report has been developed showing how the DCA guarantees can benefit activities of counterparts in the three major component areas of the Project.

II. SIGNIFICANT EVENTS: DCA MONITORING MOLDOVA

THERE WERE NO DCA-RELATED ACTIVITIES DURING THE REPORTING PERIOD

III. EXECUTIVE SUMMARY: DCA MONITORING MOLDOVA

IV. ADMINISTRATIVE ISSUES: DCA MONITORING MOLDOVA

NONE

V. DESCRIPTION AND STATUS OF TASKS – DCA MONITORING MOLDOVA

NOTE: all activities on an ongoing/as needed basis, as requested from DCA and/or the partner financial institutions

Task A. Monitor Activities of Financial Institutions Working with the DCA

DCA Component

Defined Activity	Progress Made During Quarter/Proposed Future Actions
A.1. Monitor how Financial Institutions are utilizing guarantees and submitting claims	N/A
A.2. Act as contact person for Financial Institutions and USAID to answer relevant questions	N/A
A.3. Assist Financial Institutions to complete questionnaires and surveys, where necessary	N/A
A.4. Conduct meetings with Financial Institutions as needed and prepare semi-annual monitoring reports for USAID	N/A
A.5. Verify partner Financial Institutions' semi-annual reports submitted through the Credit Monitoring System	N/A

LIST OF ATTACHMENTS

NONE

--END ATCI MOLDOVA--

UKRAINE
ATTACHMENTS

ATTACHMENT 1

THE CURRENT SITUATION	
State Mortgage Institution (SMI)	**Ukrainian Commercial Banks**
1. The main goal of SMI is to promote further development of the mortgage market in Ukraine through refinancing of mortgage loans.	1. Banks have significant amount of medium and long term mortgage loans* on their balance sheets that do not comply with SMI's Standards (for example, loans in foreign currency). * USD14 bn of mortgage loans outstanding as at the end of 2008.
2. SMI received government guarantee on its prospective UAH1 bn bond issue at the end of 2008.	2. Banks need liquidity because of mass outflow of deposits.
3. Placement of the bond is unlikely because of financial and economic crisis.	3. Banks need the assets that are acceptable for NBU refinancing.
THE PROBLEM	
1. SMI cannot conduct long-term borrowing according to the usual scheme via public placement to perform its main goal. 2. SMI needs to seek for alternative to the public ways of bond placement.	1. Banks cannot use their mortgage loans for resolving the problem of liquidity. 2. Banks need to transform their mortgage assets into an instrument that would allow them to attract funds, for example, SMI's government guaranteed bonds that are accepted by NBU as a pledge for refinancing.
THE CONCEPT OF RESOLVING THE PROBLEM	
SMI swaps its government guaranteed bonds for banks' mortgage bonds on Repo terms.	
THE SEQUENCE OF TRANSACTIONS	
1. SMI and commercial banks reach an arrangement on the mutual (linked, tied) private placement** of their bonds on condition of mutual repurchase of the bond in a certain period of time (prior to SMI's and banks' mortgage bonds mature). ** The problem is not in private versus public placement, but in fair market price forecasting of SMI's and banks mortgage bonds for the time of placement/exchange of the bonds; the preice should be as close to market as possible for the case of a counterparty non-execution of the second legs of the Repos.	
2. SMI places its government guaranteed bonds.	
3. SMI receives payment for the bonds from the banks.	
4. Banks place their bonds.	
5. Banks receive payment for the bonds from the SMI. ***	
6. Banks and SMI conduct the second legs of the Repos (exchange the bonds, through NBU intraday loan facility if necessary)	
THE RESULTS	
• SMI attracts funds for performing its main goal.	• Commercial banks solve the problem of transformation of their mortgage assets into a liquid instrument in the present situation of liquidity crisis. • Banks gain experience of issuance of mortgage bonds.
SMI'S ADVANTAGES OF PURCHASING MORTGAGE BONDS VERSUS PURCHASE OF MORTGAGE ASSETS	
SMI extends the range of assets for investments with mortgage bonds.	

*** Steps 2-5 can be conducted repeatedly depending on the amount of the loan that will facilitate the exchange of the bonds banks can get from NBU (the number of repetition equals to UAH1 bn divided by the NBU loan facility if only one bank is involved).

Attachment 1. Precise regulations that make SMI's (Repo of the "pool" of non-standard mortgage loans) and ATCI's schemes (the one above) currently unfishable.

Government resolution No. 1094 that allows spending of borrowed funds guaranteed by the Cabinet of Ministers exclusively for:

- purchasing of banks' demand rights on mortgage loans,
- up to 180 day loans to banks for the purpose of mortgage portfolio formation,
- up to 2.5 year loans to banks for the purpose of crediting investors in housing under construction. (Please, find also ATCI's Presentation "SMI Operations: allowed and viable options" from July 10, 2008, attached to the cover letter)

In the scheme outlined by SMI there is no object of property right transfer and there is no pledge. The scheme eventually is a financial loan that is not secured by pledge according to definition of the Law of Ukraine "On Financial Services and State Regulation of the Market for Financial Services."

CONCLUSION: Such loan does not comply with statutory goals of the SMI adopted by Cabmin.

Attachment 2. Risks of the scheme considered above.

1. NBU excludes SMI's bonds with government guarantee from the list of acceptable refinancing collaterals (the list is reviewed every quarter).
2. Cridit Risk: SMI counterparty banks in the scheme become insolvent, SMI bonds of the banks remain as a pledge at the NBU, SMI is left with the insolvent (or bankrupt) banks' mortgage bonds and has to engage in costly and time-consuming trials to obtain mortgage covers. SMI might not receive interest on the mortgage bonds for the period of provisional administration/trials and incur losses still having to pay interest on its bonds.
3. Mortgage cover shrinkage risk: mortgage covers of the banks' bonds may shrink because new mortgages might not be issued and old ones may drop from the cover because of the borrowers' deteriorating credit quality (e.g. because of delinquencies). In this case SMI should have the right to execute the second Repo leg prematurely for the amount of bonds that make the covers adequate to the issue sizes.
4. Banks will need guarantees that after undertaking efforts to prepare their mortgage bonds for placement SMI buys them.

Attachment 3. Numerical examples (please, find below and attached to the cover letter).

Comment	Coupon Period	4 Banks' Cash Flows on Mortgage Bonds				SMI's Cash Flows on its Guaranteed Bond				SMI's Cash Flows for the Scheme, UAH, mln
		Principle, UAH, mln	Mortgage Bond Coupon Rate, %	Coupon Payment, UAH mln	Total Cash Flow, UAH, mln	Principle, UAH, mln	Mortgage Bond Coupon Rate, %	Coupon Payment, UAH mln	Total Cash Flow, UAH, mln	
		1	2	3=1.0*2/100	4=1+2	5	6	7=5.0*6/100	8=5+7	9=8-4
Issuance/Repo First Legs	0	1 000	17	0	1 000	1 000	15	0	1 000	0
	1		17	-170	-170		15	-150	-150	20
	2		17	-170	-170		15	-150	-150	20
	3		17	-170	-170		15	-150	-150	20
Repos Second Legs	4	-1 000	17	-170	-1 170	-1 000	15	-150	-1 150	20
Redemption	5								**Total:**	**80**

ATTACHMENT 2

Average Size of Mortgage Loans for Purchase of Housing in the Secondary Market that were Provided from 2005 till 2008

	Bank 1								Bank 2							
	2005		2006		2007		2008		2005		2006		2007		2008	
	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn	Hryvnia th Hrn	US Dollar equivalent in th Hrn
AR Crimea				128,73	101,00	209,63	1045,50	216,41		0,00	50,00			484,96	324,90	493,11
Vinnitsya						60,60			110,55	139,45	150,00	126,47		348,73	166,93	399,89
Volynska						269,09								266,51	30,00	176,46
Dnipropetrovska		338,35	114,76	196,89	185,38	201,65	242,40	162,54						558,79	81,09	569,27
Donetska			123,75	181,37		140,16	98,39	189,33	165,93			122,35	60,00	259,43	344,05	357,44
Zhytomyrska				192,80		252,55		217,47						494,26		356,25
Zakarpatska				116,66		129,01				212,21				544,66	270,00	495,85
Zaporiscka			170,00	178,22		374,27		180,45				102,97		280,00	552,60	456,27
Ivano-Frankivska		158,40		108,95		146,45		169,18		174,45				222,90		421,97
Kyiv		671,45	90,00	731,74		804,22	300,00	646,99	239,42	392,77		242,29	160,00	1246,04		1150,40
Kyivska				72,38		277,89		656,50								245,11
Kirovogradska						178,00		327,88						176,81	170,30	454,05
Luhanska				103,65	81,00	97,97	56,50	166,54						290,74		218,06
Lvivska		101,03		211,54		258,05		192,41						903,06		474,41
Mykolayivska	2900,00	111,35		185,95		129,62							86,15	227,10	178,97	497,56
Odeska		834,70	92,00	449,72	39,50	458,72	319,72	279,47								1334,25
Poltavska			77,31	119,65		152,65	66,50	271,11		125,99		82,38		197,50	350,67	295,99
Rivnenska				283,37		167,97				105,76				436,11		535,45
Sumska		111,12	51,51	111,25		165,60	272,17	151,50		105,70					145,00	169,60
Ternopilska						740,67				44,97					380,00	513,88
Kharkivska		344,05		219,73	105,00	362,22	180,00	361,68						318,64	600,00	451,04
Khersonska					229,53	415,11		449,52				94,98		520,43		432,32
Khmelnitska				757,50		427,23		317,65		310,12				1383,45	184,69	277,42
Cherkaska			61,19	214,26	175,77	135,80	170,00	207,05		159,91				186,07	197,77	360,34
Chernivetska						252,50								261,67	516,50	466,51
Chernihivska			80,00	171,05		541,51	259,00	206,66	176,00							

Bank 3								Bank 4							
2005		2006		2007		2008		2005		2006		2007		2008	
Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar
th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn
102,00		119,00													
								91,00	77,00	51,00	207,00	50,00	117,00	76,00	145,00
71,00															
96,00		80,00							194,00		289,00		485,00		
124,00		103,00													

Bank 5								Bank 6							
2005		2006		2007		2008		2005		2006		2007		2008	
Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar
th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn
54,25	104,20	116,70	227,11	1068,37	382,91	139,50	673,70								
							495,11					400,00			
153,65	78,95	144,72	125,43	141,63	180,40	227,00	411,87								
200,00	107,86	308,98	414,62	464,45	838,22	387,00	1214,68								
61,59	113,32	281,31	171,95	112,96	246,59	139,11	456,94								
				223,00	249,47	310,90	274,31				311,50		107,31		
	84,15	34,30	154,34	93,28	187,92	84,66	342,52								
							3468,85								
	94,71		297,28	92,13	372,86	304,00	353,06								
302,24	148,50		581,44	497,41	443,06	521,30	855,78				130,90		7170,02	3395,00	
78,68	119,98	137,75	236,47	319,38	294,27	218,77	541,94								
76,50	85,67		183,97	129,80	142,01		356,54								
			279,01		2080,78		337,95							2300,00	
	316,61		283,47	308,40	220,08		438,59								
	0,00						263,34								
	103,43		157,27		323,56		651,93								
300,00	101,53	347,97	217,59	485,97	346,21	352,41	575,02								
81,55	102,18	104,67	157,04	223,84	254,26	303,78	520,70								
25,50	71,71	12,50	153,00	1186,75	242,07	65,00	223,78								
359,83	140,73	446,42	104,16	89,64	202,58	122,34	358,36								
							154,00								
119,11	112,94	190,27	237,24	389,23	344,62	268,92	505,66								

Bank 7								Bank 8							
2005		2006		2007		2008		2005		2006		2007		2008	
Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar
th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn
			230,00		346,00		240,00					210,35	58,34	227,25	81,18
							401,00					202,00	27,09	161,14	66,99
												161,60	47,63	507,00	47,57
							329,00					118,26	63,65	234,09	69,56
							270,00					88,46	69,43	62,45	36,53
	75,75	175,00	40,70		168,00	66,00	266,00					106,00	40,21	400,00	43,56
												187,88	40,97	136,00	39,61
	124,00		239,00		171,00	160,50	349,00					48,75	46,74	100,93	50,44
												70,70	38,83	165,26	39,12
	242,98	420,00	356,80	379,00	536,70	758,00	818,90					402,00	89,71	350,00	96,95
												638,45	268,70	360,67	267,29
													48,04	416,25	44,64
					101,00		65,92					57,73	24,73	64,90	41,61
					401,00		560,00					65,00	54,60	145,97	68,01
							223,80					285,61	34,37	32,19	42,62
	319,00				986,00		332,80						84,79	0,00	72,91
							141,00					105,30	34,80	71,09	29,31
													28,95	0,00	45,77
												93,96	20,19	73,81	32,34
													32,64	0,00	67,03
							476,00					350,00	34,31	439,41	84,57
												434,23	44,12	0,00	37,86
												58,50	43,16	0,00	68,70
							366,00					125,00	9,00	213,85	35,75
													38,20	0,00	41,57
							303,00						31,44	135,00	47,31

Bank 9

2005		2006		2007		2008	
Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar	Hryvnia	US Dollar
th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn	th Hrn	equivalent in th Hrn
				378,75		583,50	
						259,55	
				1243,00		497,82	
						482,83	
				195,00		184,00	
			176,75	1006,62	890,29	517,03	
						384,75	
				356,99	500,06	879,00	185,57
				317,17		379,70	
						365,00	
					853,45		
						135,00	
				600,00		400,00	
				534,33		376,75	
						481,35	

ATTACHMENT 3

ПОГОДЖЕНО»
Міністерство фінансів України
від «___» лютого 2009 року
В.о. Міністра фінансів
Т. Т. Єфанський
06 лютого 2009

ДЕРЖАВНА ІПОТЕЧНА УСТАНОВА
State mortgage institution

ПРОСПЕКТ
ЕМІСІЇ ОБЛІГАЦІЙ

третього випуску - серії "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1",
четвертого випуску - серії "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1",
п'ятого випуску - серії "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2",
шостого випуску - серії "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2",
сьомого випуску - серії "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2"

ДЕРЖАВНОЇ ІПОТЕЧНОЇ УСТАНОВИ

1 000 000 000 ГРИВЕНЬ

Лютий 2009

Відповідно до Рішення Правління Державної іпотечної установи (Постанова Правління Державної іпотечної установи від 17.02.2009 р. №233/2), погодженого Міністерством фінансів України 18.02.2009 року, ***внесені зміни до пункту 3 цього проспекту емісії облігацій, які 19.02.2009 року зареєстровані ДКЦПФР, шляхом викладення його в новій редакції .***

Додатково дивись: Зміни до проспекту емісії облігацій третього випуску - серії "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серії "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серії "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серії "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серії "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" ДІУ .

Реєстрація випуску облігацій та проспекту емісії облігацій, що проводиться Державною комісією з цінних паперів та фондового ринку, не може розглядатися як гарантія вартості цих облігацій. Відповідальність за достовірність відомостей, наведених у документах, що подаються для реєстрації випуску облігацій, несуть особи, що підписали ці документи.

1. Інформація про Емітента

Найменування

Державна іпотечна установа (надалі - Емітент)
Государственное ипотечное учреждение
State Mortgage Institution
Код ЄДРПОУ – 33304730.

Місцезнаходження, номери телефонів, факсу

Юридична адреса: 04071, м. Київ, вул. Межигірська, 11;
Фактична адреса: 04116, м. Київ, вул. Шолуденка, 1-б;
тел.: (38 044) 483-44-71, факс: (38 044) 483-44-80,
e-mail: office@ipoteka.gov.ua.

Дата заснування

Утворена постановою Кабінету Міністрів України від 8 жовтня 2004 р. N 1330 “Деякі питання Державної іпотечної установи”.

Перелік засновників

Засновником Державної іпотечної установи є держава в особі Кабінету Міністрів України.

Органи управління

Органами управління Державної іпотечної установи є: наглядова рада, правління.

Наглядова рада Державної іпотечної установи

Наглядова рада утворюється органом управління майном.

Наглядова рада діє на підставі Положення про наглядову раду, яке затверджується органом управління майном.

Порядок формування та кількісний склад наглядової ради визначається Положенням про наглядову раду.

Члени наглядової ради виконують свої обов’язки на громадських засадах і не можуть перебувати у трудових відносинах з Державної іпотечної установи.

До компетенції наглядової ради належить:

1) здійснення в межах повноважень, наданих органом управління майном, нагляду за управлінням майном Державної іпотечної установи, вжиттям Державної іпотечної установи заходів для досягнення мети її діяльності та виконання положень Статуту Державної іпотечної установи;

2) здійснення контролю за фінансовою стабільністю Державної іпотечної установи та дотриманням нею законодавства;

3) затвердження форми щоквартального звіту голови правління;

4) погодження рішення правління Державної іпотечної установи щодо здійснення правочинів на суму, що дорівнює або перевищує 10 відсотків суми активів балансу, станом на останню звітну дату (крім операцій рефінансування іпотечних кредитів, які відповідають єдиним стандартам);

5) заслуховування звітів голови правління про виконання програм з питань діяльності Державної іпотечної установи, річних результатів її діяльності, а у разі потреби – заслуховування позачергових звітів або пояснень з окремих питань діяльності Державної іпотечної установи, заслуховування щоквартальних звітів служби внутрішнього аудита;

6) затвердження вимог до зовнішнього аудитора Державної іпотечної установи;

7) розгляд звітів та висновків зовнішнього аудитора, а у разі потреби – призначення позачергових аудиторських перевірок Державної іпотечної установи;

8) розгляд рейтингових оцінок Державної іпотечної установи, визначених в установленому порядку;

9) затвердження положень про службу внутрішнього аудита та про секретаріат наглядової ради, погодження символіки Державної іпотечної установи;

10) погодження рішення голови правління про притягнення до дисциплінарної відповідальності осіб, які входять до складу служби внутрішнього аудита та секретаріату наглядової ради;

11) затвердження на підставі Основних засад діяльності Державної іпотечної установи єдиних стандартів, норм і процедур надання кредитів, рефінансування іпотечних кредиторів та обслуговування іпотечних активів, у тому числі вимог до іпотечних кредиторів та нормативів концентрації ризиків;

12) затвердження за погодженням з органом управління майном вимог до іпотечних кредитів, параметрів випусків та емісії цінних паперів;

13) затвердження річних фінансових звітів і бухгалтерського балансу Державної іпотечної установи;

14) затвердження розміру відсоткової ставки рефінансування іпотечних кредитів;

15) розгляд інших питань діяльності Державної іпотечної установи за ініціативою голови правління та органу управління майном, порушених у межах компетенції, а також виконання інших функцій відповідно до законодавства та Статуту Державної іпотечної установи.

Правління Державної іпотечної установи

Правління є виконавчим органом Державної іпотечної установи, який здійснює поточне керівництво діяльністю і несе відповідальність за ефективність її роботи.

Правління підзвітне та підконтрольне органу управління майном та наглядовій раді.

До складу правління входять голова правління, перший заступник, заступники голови правління та інші члени правління, які призначаються на посаду та звільняються з посади відповідно Статуту Державної іпотечної установи. Кількісний склад правління, в тому числі кількість заступників голови правління, визначається органом управління майном.

Голова правління призначається на посаду та звільняється з посади органом управління майном за погодженням з Кабінетом Міністрів України.

Члени правління, в тому числі перший заступник, заступники голови правління, головний бухгалтер призначаються на посаду та звільняються з посади головою правління за погодженням з органом управління майном та мають відповідати професійним вимогам до керівників та головних бухгалтерів фінансових установ, встановлених Державною комісією з регулювання ринків фінансових послуг України.

Порядок роботи та прийняття рішень правлінням визначаються цим Статутом Державної іпотечної установи та Положенням про правління, яке затверджується органом управління майном.

Засідання правління є правомочним, якщо на ньому присутня більшість його членів.

Рішення правління приймається простою більшістю голосів його членів, присутніх на засіданні. У разі рівного розподілу голосів вирішальним є голос головуючого на засіданні.

Рішення правління оформляється протоколом, на підставі якого складаються розпорядчі документи Державної іпотечної установи, обов'язкові до виконання усіма працівниками.

До компетенції правління належить:

1) вирішення питань господарської діяльності, фінансування, ведення обліку, складення звітності, роботи з цінними паперами, проведення операцій та провадження іншої діяльності Державної іпотечної установи згідно з Статутом Державної іпотечної установи;

2) затвердження внутрішніх документів Державної іпотечної установи у межах своїх повноважень та відповідно до Положення про правління;

3) подання наглядовій раді проектів документів, які підлягають затвердженню або погодженню нею, підготовка усіх питань, що підлягають розгляду або обговоренню на засіданні наглядової ради;

4) забезпечення виконання рішень наглядової ради;

5) прийняття рішення про емісію цінних паперів відповідно до параметрів, затверджених наглядовою радою за погодженням з органом управління майном;

6) за погодженням з органом управління майном прийняття рішення про утворення, реорганізацію та ліквідацію філій і представництв Державної іпотечної установи;

7) за погодженням з органом управління майном прийняття за результатами проведеної інвентаризації рішення про списання у порядку, передбаченому законодавством, з балансу Державної іпотечної установи об'єктів незавершеного будівництва (незавершені капітальні інвестиції в необоротні матеріальні активи), матеріальних активів, що визнаються відповідно до законодавства основними

фондами (засобами), які непридатні для подальшого використання, морально застарілі, фізично зношені, пошкоджені внаслідок аварії чи стихійного лиха і не підлягають відновленню або виявлені в результаті інвентаризації як нестача;

8) прийняття рішення щодо здійснення правочинів на суму, що не перевищує 10 відсотків підсумків активів балансу, станом на останню звітну дату (крім операцій рефінансування іпотечних кредитів, які відповідають єдиним стандартам);

9) прийняття за погодженням з наглядовою радою рішення щодо здійснення правочинів на суму, що дорівнює або перевищує 10 відсотків підсумків активів балансу, станом на останню звітну дату (крім операцій рефінансування іпотечних кредитів, які відповідають єдиним стандартам);

10) визначення форми звітності (інформації) та порядку її подання іпотечними кредиторами, які рефінансуються Державною іпотечною установою;

11) за погодженням з наглядовою радою затвердження символіки Державної іпотечної установи;

12) подання на затвердження наглядовій раді пропозицій щодо відсоткової ставки рефінансування;

13) розгляд матеріалів ревізій і аудиторських перевірок, а також звітів керівників філій та представництв Державної іпотечної установи про результати їх роботи;

14) розгляд річного звіту і бухгалтерського балансу Державної іпотечної установи та подання їх для затвердження наглядовій раді;

15) визначення переліку конфіденційної інформації та інформації, яка становить комерційну таємницю;

16) затвердження положень про відокремлені підрозділи (філії, представництва) Державної іпотечної установи;

17) прийняття за погодженням з органом управління майном рішення щодо входження Державної іпотечної установи до складу об'єднань юридичних осіб, участі в інших юридичних особах, участі в інститутах спільного інвестування;

18) здійснення інших функцій, делегованих в межах компетенції відповідно до законодавства органом управління майном Установи та наглядовою радою.

Предмет та мета діяльності

Метою діяльності Емітента є рефінансування іпотечних кредиторів (банків і небанківських фінансових установ, які провадять діяльність з надання забезпечених іпотекою кредитів) за рахунок коштів, отриманих від розміщення цінних паперів, та сприяння подальшому розвитку ринку іпотечного кредитування в Україні.

Предметом діяльності Емітента є:

придбання, отримання у заставу, відчуження та здійснення інших операцій з іпотечними активами (правами вимоги за іпотечними кредитами);

надання іпотечним кредиторам кредитів, виконання зобов’язань за якими забезпечене іпотечними активами;

управління іпотечними активами;

емісія цінних паперів;

надання послуг з обслуговування міжнародних кредитних ліній, кошти яких спрямовуються у сферу іпотечного кредитування;

розроблення і впровадження методологічних рекомендацій та єдиних стандартів, норм і процедур надання, рефінансування та обслуговування іпотечних активів.

Для досягнення мети, визначеної Статутом, Емітент провадить також інші види діяльності згідно із законодавством.

Окремі види господарської діяльності, перелік яких встановлюється законом, Емітент може провадити після отримання ліцензії.

Емітент здійснює рефінансування іпотечних кредиторів з дотриманням умов та економічних нормативів діяльності.

Емітент не має права безпосередньо здійснювати іпотечне кредитування позичальників (іпотекодавців), а також здійснювати не забезпечене іпотечними активами рефінансування іпотечних кредиторів.

Емітент має право придбавати чи отримувати у заставу тільки ті іпотечні активи, що відповідають вимогам до іпотечних кредитів, погоджених органом управління майном.

Обов'язковою умовою придбання або отримання у заставу іпотечних активів є зобов'язання іпотечного кредитора щодо заміни або зворотного викупу окремих іпотечних активів, які перестали відповідати затвердженим вимогам до іпотечних кредитів або за якими позичальники (іпотекодавці) порушили свої зобов'язання.

Емітент має право на договірних засадах доручати іншим особам виконувати функції з управління та/або обслуговування придбаних або переданих у заставу іпотечних активів.

Розмір статутного капіталу на дату прийняття рішення про розміщення:

Статутний капітал Емітента становить 200 000 000 (двісті мільйонів) гривень та повністю сплачений.

Розмір власного капіталу на останню звітну дату що передує даті прийняття рішення про розміщення:

Розмір власного капіталу Емітента становить 229 417 тис.грн. (двісті двадцять дев'ять мільйонів чотириста сімнадцять тисяч гривень).

Чисельність штатних працівників

Чисельність штатних працівників Емітента за станом на 31 грудня 2008 року складала 66 осіб.

Відомості про посадових осіб Емітента

Члени правління:

Прізвище, ім`я та по батькові	Посада в Установі та посада на основному місці роботи Посада на попередніх місцях роботи за останні 5 років	Рік народ ження	Освіта	Кваліфікація	Виробничий стаж (років)	Стаж роботи на посаді в Установі (років)
ШЕВЧЕНКО Кирило Євгенович	Голова Правління Перший заступник Голови Правління банку "Фінанси та кредит"	1972	Повна Вища	Економіст	15	2
МОСКАЛЕНКО Сергій Іванович	Перший заступник Голови Правління Заступник начальника оперативного управління по роботі з великими платниками податків (банками) ДПА України; Заступник начальника управління по боротьбі з корупцією в органах ДПС ДПА України	1958	Повна вища	Економіст, менеджер банку	27	3,5
ВОЛКОВ Сергій Сергійович	Заступник Голови Правління Президент ТОВ "Фінансова компанія "БТА-Іпотека Україна"; Координатор проектів, виконавчий директор АЮО "Українська Національна Іпотечна Асоціація"; Заступник Голови Правління ВАТ "Державний ощадний банк України;	1961	Повна Вища	Економіст	22	1
ПУДРИК Валерій Юрійович.	Заступник Голови Правління Директор Департаменту фінансів державних підприємств та відносин власності Міністерства фінансів України; Головний радник Служби Голови правління НАК «Нафтогаз України»; В.О. генерального директора ДП «Газ-тепло» НАК «Нафтогаз України» ; Начальник Департаменту по роботі з енергогенеруючими підприємствами ЗАТ	1953	Повна вища	Гірний інженер, спеціаліст з обліку та аудиту	34,5	1

	«Укргаз- енерго»; Радник Голови Правління ТОВ Універсальний комерційний банк «Камбіо»; Директор Київської філії ВАТ «Мегабанк»; Генеральний директор ДП «Газ-тепло» НАК «Нафтогаз України» ; Заступник Генерального директора з питань взаємовідносин з теплопостачальними організаціями ДП «Газ України» НАК «Нафтогаз України»;					

Наглядова рада:

(склад затверджений наказом Міністерства фінансів України від 21 серпня 2008 р. № 1081 із змінами, внесеними наказом Міністерства фінансів України від 10 листопада 2008 р. № 1361).

Прізвище, ім`я та по батькові	Посада в Установі та посада на основному місці роботи Посада на попередніх місцях роботи за останні 5 років	Рік народження	Освіта	Кваліфікація	Виробничий стаж (років)	Стаж роботи на посаді в Установі (років)
УМАНСЬКИЙ Ігор Іванович	Перший заступник Міністра фінансів України, Голова наглядової ради, Заступник Голови Державного агентства України з інвестицій та інновацій, Заступник Голови Правління Державної іпотечної установи, Заступник Голови Правління ВАТ “Укртранснафта”, директор Департаменту роботи з проблемними банками генерального департаменту банківського нагляду Національного банку України	1975	Повна вища	Економіст	12	0,5
ЛИТВИН Володимир Миколайович	Заступник Міністра фінансів України, Заступник Голови наглядової ради, провідний менеджер з маркетингу та зв'язків з клієнтами представництва банку в "Вест ЛБ АГ",	1973	Повна вища	Економіст	15	0,5

	Німеччина, заступник Голови правління НАК "Нафтогаз України", генеральний директор ТОВ „Полікорп ЛТД”					
Змій Юрій Мирославович	Заступник директора Департаменту забезпечення діяльності Міністра (патронатна служба) Міністерства фінансів України, член наглядової ради, ВГО„Незалежний аналітичний центр„Інститут реформ”	1980	Повна вища	Економіст	7	0,5
МАКСЮТА Анатолій Аркадійович	Перший заступник Міністра економіки України, член наглядової ради, Перший заступник Міністра економіки України, Перший заступник Міністра фінансів України, Перший заступник Державного секретаря Міністерства фінансів України	1963	Повна вища	Економіст	24	2
НАЗАРЕНКО Юрій Миколайович	Керівник апарату Державної комісії з цінних паперів та фондового ринку, член наглядової ради, Заступник Міністра Кабінету Міністрів України, начальник управління стратегії реформування економіки та стратегічного планування департаменту економічної політики, заступник завідуючого економічним відділом Секретаріату Кабінету Міністрів України	1954	Повна вища	Економіст	30	0,5
ЛИТВИН Андрій Володимирович	Перший заступник Голови Державної комісії з регулювання ринків фінансових послуг України, член наглядової ради, Президент Закритого акціонерного товариства „Європейський страховий альянс”	1968	повна вища	Економіст	19	0,25
КІРЄЄВ Олександр Іванович	Виконавчий директор – Директор дирекції з банківського регулювання та нагляду Національного банку України, член наглядової ради,	1956	Повна вища	Економіст	32	0,5

	Голова Державої податкової адміністрації України, директор центру незалежних досліджень Національного банку України					
ЯЩУК Валентина Віталіївна	Начальник управління фінансової політики Секретаріату Кабінету Міністрів України, член наглядової ради, Заступник начальника управління фінансової політики Секретаріату Кабінету Міністрів України	1963	Повна вища	Економіст	27	2

Відомості про середню заробітну плату членів Правління за останній квартал та завершений фінансовий рік, що передував поданню документів

У 2007 році середньомісячна заробітна плата членів Правління складала 28 964,72 тис. гривень, у IV-му кварталі 2008 року – 33 475,57 гривень.

2. Інформація про фінансово-господарський стан емітента:

Перелік ліцензій (дозволів) емітента на провадження певних видів діяльності

Свідоцтво про реєстрацію фінансової установи: як фінансову установу Емітента зареєстровано Розпорядженням Державної комісії з регулювання ринків фінансових послуг України (рішення від 29.03.2005 р. № 3802, реєстраційний номер 16101513, серія та номер ІК № 2), Розпорядження Державної комісії з регулювання ринків фінансових послуг України (рішення від 12.09.2006 р. № 6206, Ліцензія Державної комісії з регулювання ринків фінансових послуг України від 02.10.2006 р. № 316.

Види фінансових послуг, які має право здійснювати фінансова компанія:

1) надання фінансових кредитів за рахунок власних коштів;

2) надання фінансових кредитів за рахунок залучених коштів.

Опис діяльності емітента за станом на кінець звітного періоду, що передував кварталу, у якому подаються документи для реєстрації інформації про розміщення облігацій

Згідно положень Статуту, головною метою діяльності Емітента є сприяння подальшому розвитку ринку іпотечного кредитування в Україні, зокрема шляхом рефінансування іпотечних кредиторів (банків і небанківських фінансових установ, які провадять діяльність з надання забезпечених іпотекою кредитів) за рахунок коштів, отриманих від розміщення цінних паперів, та запровадження ефективних механізмів підвищення рівня їх ліквідності.

Станом на 01.01.2008 р. загальний обсяг іпотечних кредитів в Україні, які надані банками фізичним особам, становив біля 57,2 млрд. грн. та за 9

місяців 2008 року збільшився до 80,13 млрд. грн., темпи зростання у порівнянні з початком року становили 140%.

Частка іпотечних кредитів зростає, як в загальному кредитному портфелі, так і в портфелі кредитування фізичних осіб. Якщо на початку року частка іпотечних кредитів в загальному кредитному портфелі була 13,4%, то за результатами 9 місяців 2008 року вона зросла до 14,2%. Частка іпотечних кредитів в портфелі кредитів фізичних осіб становить більше третини – 38,6%.

Є видимою тенденції зменшення рівня валютизації ринку: серед іпотечних кредитів частка кредитів виданих в гривні збільшилися з 18,5% до 28,2%.

Частка кредитів, наданих фізичним особам в гривні з початку 2007 року з 32% на початку року до 31,3%.

Позичальники, які вирішили придбати житло в кредит у III кварталі 2008 року, збільшилися – так, в структурі нових виданих іпотек на житлову іпотеку припадає 43,7% порівняно з 31% минулого кварталу.

На сьогодні на вторинному ринку іпотечного кредитування присутня лише одна така установа, створена за державною підтримкою - Державна іпотечна установа. Отримані первинним іпотечними кредитором кошти від здійснення операції з його рефінансування Емітентом спрямовуються на надання нових кредитів. При цьому первинні іпотечні кредитори – банки продовжують здійснювати обслуговування цих іпотечних кредитів. Нижче наведена узагальнена схема рефінансування Емітентом первинних кредиторів.

Стандартами Емітента визначені сукупні критерії відбору іпотечних кредиторів-банків для прийняття рішень щодо їх участі та здійснення операцій з їх рефінансування Емітентом.

Відповідно встановлених критеріїв відбору банків станом на 31.12.2008 року загальна кількість іпотечних кредиторів-банків, з якими укладені генеральні договори про рефінансування та обслуговування іпотечних кредитів, складає 80 банки. Із них, згідно з класифікацією Національного банку України за активами, співпрацюють з Емітентом банки:

1-ї групи за активами – **17 (із 18)** банків цієї групи;

2-ї групи за активами – **11 (із 20)** банків цієї групи;

3-ї групи за активами – **7 (із 24)** банків цієї групи;

4-ї групи за активами – **45 (із 120)** банків цієї групи.

Емітента здійснює операції з рефінансування іпотечних кредиторів (виключно банків) із застосуванням таких загальних правил:

- сума рефінансування кожного іпотечного кредиту повинна відповідати сумі залишку основного боргу позичальника за таким кредитом;
- права вимоги за іпотечними кредитами набуваються Емітентом на повний строк дії договорів про іпотечний кредит з урахуванням обмежень встановлених постановою Кабінету Міністрів України від 03.08.2006р. № 1094;
- Емітент має повне право регресу (вимоги щодо зворотного відступлення) по відношенню до іпотечного кредитора за чітко визначеними відповідними договорами відступлення прав вимоги обставинами такого

зворотного відступлення. При цьому іпотечний кредитор зобов'язаний здійснити зворотне набуття прав вимоги за іпотечним кредитом, який перестав відповідати вимогам Стандартів ДІУ або провести його заміну;

- Емітент періодично інформує іпотечних кредиторів про параметри рефінансування та встановлює ліміти на операції з рефінансування на кожного іпотечного кредитора;
- одночасно із здійсненням рефінансування іпотечних кредитів, Емітент передає їх на обслуговування, тим іпотечним кредиторам які здійснили їх видачу;
- Емітент з метою забезпечення безперебійного надходження платежів від позичальників по рефінансованими ДІУ іпотечним кредитам у разі погіршення фінансового стану первинного кредитора може передати на резервне (запасного) сервісне обслуговування платежів банку-партнеру ДІУ. Резервними банками визначені ВАТ «Державний ощадний банк України» та ВАТ «Державний експортно-імпортний банк України». Зазначене є актуальним саме в існуючих умовах фінансової нестабільності частини банків.

Основним джерелом здійснення операцій по рефінансуванню іпотечних кредиторів-банків є виключно власні кошти (кошти статутного та додаткового капіталу Емітента) та залучені кошти, отримані від розміщення цінних паперів (корпоративних облігацій, забезпечених державною гарантією, іпотечних облігацій).

Кредитні правочини щодо залучення коштів Емітентом та направлення їх на здійснення рефінансування первинних кредиторів не вчинялися.

У 2008 році обсяги рефінансування (кредитний портфель) Емітента збільшилися більше ніж у 20 разів в порівнянні з 2007 роком. Станом на 31.12.2008 р. обсяг рефінансування вже склав 2 007,8 млн. гривень.

Станом на 31.12.2008 р. в портфелі Емітента знаходилося 6414 рефінансованих стандартних житлових іпотечних кредитів, які були надані в усіх регіонах України банками-партнерами Емітентом.

Ставка рефінансування іпотечних кредиторів-банків при набутті прав вимоги за іпотечними кредитами, за якою здійснено рефінансування іпотечних кредитів на початок 2008 року становила 9,9% річних.

Враховуючи макроекономічною ситуацією, що склалася в країні, зокрема рівень інфляції та підвищення облікової ставки Національного банку України Наглядовою радою було прийнято рішення про затвердження ставки рефінансування іпотечних кредитів на рівні 13,5% річних. Встановлена ставка діє з 22 травня 2008 року.

В загальному обсязі рефінансованих Емітентом іпотечних кредитів переважна частина припадає на регіони з активним розвитком первинного та активним вторинним ринком житла.

Понад 80,6% від усіх здійснених ДІУ операцій рефінансування забезпечили наступні 10 банків, а саме: ЗАТ КБ "Приватбанк", ВАТ "Родовід-банк", ВАТ "Фінанси та кредит", ВАТ КБ "Надра", ТОВ "Укрпромбанк", ВАТ КБ

"Актив-банк", ВАТ "Кредитпромбанк", АБ "Енергобанк", АКБ "Меркурій", ЗАТ "Терра-Банк".

Обсяги та напрями інвестиційної діяльності емітента

Капітальні інвестиції	Факт 2008 р.
Капітальні інвестиції, усього	3 730,6
придбання (виготовлення) основних засобів	1 138,7
придбання (виготовлення) інших необоротних матеріальних активів	62,9
придбання (створення) нематеріальних активів	2 505,1
модернізація, модифікація (добудова, дообладнання, реконструкція) основних засобів	23,9

На протязі 2008 року ДІУ було освоєно 3 730,6 тис. грн. капітальних вкладень.

67,15% капітальних вкладень складають нематеріальні активи, до складу яких входить об'єкт права інтелектуальної власності – корпоративний портал Установи на базі комп'ютерної програми «Бізнес-портал «ПРЕЗИДЕНТ», що призначена для забезпечення єдиного інформаційного середовища роботи з внутрішніми та зовнішніми інформаційними ресурсами Установи, забезпечення персоніфікованого доступу до даних, інформаційної взаємодії між структурними підрозділами Установи та автоматизації існуючих бізнес-процесів у відповідності із нормативними документами та правилами.

30,52% капітальних інвестицій освоєних протягом 2008 року припадає на придбання основних засобів, до складу яких входить придбання автомобілів, комп'ютерної та офісної техніки, меблів.

Придбання інших необоротних матеріальних активів та витрати на модернізацію та/або модифікацію основних засобів відповідно склали 1,69% та 0,64% від загального обсягу капітальних інвестицій.

Відомості про юридичних осіб, у яких емітент володіє більше ніж 10% статутного капіталу, у тому числі про дочірні підприємства, філії та представництва емітента

Емітент не володіє частками статутного капіталу інших юридичних осіб та не має дочірніх підприємств, філій та представництв.

Відомості про участь емітента в холдингових компаніях, концернах, асоціаціях тощо

Емітент є дійсним членом Української національної іпотечної асоціації (далі – УНІА).

Політика щодо досліджень та розробок

З метою проведення неупередженої та об'єктивної комплексної системної оцінки діяльності Емітента на ринку іпотечного кредитування, оцінки ризиків такої діяльності, виявлення основних тенденцій розвитку Емітентом здійснюються власні дослідження і розробки у вказаних сферах діяльності. Дослідження і

розробки, що здійснюються Банком, знаходять відображення у стандартах Емітента, методиках і процедурах, які регламентують його діяльність.

Для виявлення потенціалу розвитку іпотечного кредитування, Емітентом використовуються маркетингові та аналітичні дослідження Української національної іпотечної асоціації.

Можливі фактори ризику в господарській діяльності емітента

Ризик, з точки зору Емітента, визначається як можливість несприятливого впливу очікуваних або непередбачених подій на доходи й капітал Установи.

Карта кредитних ризиків

Категорія ризиків	Під категорія	Вид ризику / Коментар
Ризики, пов'язані з окремою трансакцією (індивідуальний ризик)	Ризик дефолту	Ризик позичальника
		Ризик контрагента
Портфельні ризики (ризики концентрації)	Концентрація за групами контрагентів	Кредити в інших банках Кредити фізичним особам
	Концентрація за видами забезпечення	
	Концентрація за сумами	
Ризик країни	Політичний ризик	
	Економічний ризик	
	Ризик розрахунків	

Дефолт – неможливість або небажання контрагента виконати своєчасно і в повному обсязі свої зобов'язання.

Кредитний ризик

Кредитні ризики – ризики, що загрожують доходам і капіталу Емітента внаслідок можливого невиконання контрагентом або групою контрагентів прийнятих на себе зобов'язань перед Емітентом.

Емітент використовує такі інструменти управління кредитним ризиком:

- встановлення та регулярний перегляд лімітів;
- прийняття забезпечення та регулярного моніторингу його стану;
- формування резервів, достатніх для покриття потенціальних збитків від активних операцій;
- страхування кредитних ризиків, зокрема, забезпечення.

Емітент встановлює такі етапи загальної процедури управління кредитним ризиком:

Етап 1. Оцінка кредитного ризику;
Етап 2. Затвердження лімітів;
Етап 3. Контроль за лімітами;
Етап 4. Оцінка адекватності кредитних моделей.

Розрахунок лімітів на здійснення операцій з банками – первинними кредиторами здійснюється з метою забезпечення прийнятного рівня ризиків при здійсненні операцій рефінансування банків – первинних кредиторів шляхом набуття прав вимоги за іпотечними кредитами та / або рефінансування банків – первинних кредиторів шляхом надання кредитів під заставу майнових прав за іпотечними житловими кредитами у короткостроковому періоді та максимізації прибутку за операціями рефінансування у середньостроковому та довгостроковому періоді з урахуванням встановлених обмежень та критеріїв. Розрахунок та встановлення лімітів на здійснення операцій з банками – первинними кредиторами здійснюється один раз на квартал станом на звітну дату.

Кредитний ризик характеризується можливістю невиконання зобов'язань позичальниками відповідно до умов укладених угод про іпотечний кредит. З метою зменшення рівня кредитного ризику Емітент застосовує механізми забезпечення банками виконання угод позичальниками шляхом прийняття на себе зобов'язань щодо зворотного викупу іпотечних кредитів. З метою зменшення рівня кредитного ризику внаслідок невиконання позичальником зобов'язань оцінка платоспроможності позичальника здійснюється з урахуванням затверджених значень коефіцієнтів (OTI та PTI), а також вимогам щодо забезпеченості зобов'язань позичальника. шляхом встановлення коефіцієнту покриття (LTV).

Ризик ліквідності

Управління ризиком ліквідності здійснюватиметься шляхом запровадження ефективних процедур управління активами і пасивами, які спрямовані на забезпечення підтримки відповідного рівня ліквідності у короткостроковому періоді та максимізацію прибутку в середньо- та довгостроковому періоді відповідно до встановлених внутрішніх нормативів і обмежень, а також забезпечення ефективного та надійного процесу управління ліквідністю, який полягає у створенні та використанні систем моніторингу та аналізу ліквідності, оцінки стану та прогнозу ліквідності, оцінки та моніторингу активів і зобов'язань, встановлені кількісних та якісних цілей.

У Емітента діє норматив короткострокової ліквідності.

Норматив короткострокової ліквідності встановлюється для контролю за здатністю кредитної установи виконувати прийняті нею короткострокові зобов'язання за рахунок ліквідних активів.

Норматив короткострокової ліквідності визначається як відношення ліквідних активів (строк погашення до одного року) кредитної установи до її короткострокових зобов'язань із строком погашення до одного року.

Показник нормативу короткострокової ліквідності повинен бути не менше ніж 20 відсотків.

Разом з тим, зважаючи на загальну економічну ситуацію в країні, а також умови ведення бізнесу та його особливості, на діяльність Установи будуть впливати наступні види ризиків.

Ринковий ризик

Ринковий ризик - ризик, який виникає внаслідок негативного впливу змін ринкових факторів, таких як процентні ставки, валютні курси, котирування цінних паперів, підвищення рівня конкуренції на ринку іпотечного кредитування, різкі зміни цінових умов на ринку нерухомості, на доходи й капітал установи або на його здатність досягати своїх завдань.

Категорії ринкових ризиків: валютний ризик; процентний ризик.

Валютний ризик характеризується можливістю значної девальвації національної валюти та, як наслідок, зниженням фінансової спроможності Установи виконувати прийняті на себе зобов'язання, які номіновані в іноземній валюті (у разі здійснення запозичень у іноземній валюті).

При здійсненні рефінансування первинних кредиторів валютні ризики не впливають на діяльність Емітента.

Ризик зміни процентної ставки - це наявний або потенційний ризик для надходжень або капіталу, який виникає внаслідок несприятливих змін процентних ставок. Цей ризик справляє вплив як на прибутковість, так і на економічну вартість активів та зобов'язань Емітента. З метою зниження рівня ризику зміни вартості ресурсів, який виникає через різницю в строках погашення та переоцінки відсоткових ставок Установа оптимізуватиме структуру активів та зобов'язань за строками.

Ризик репутації

Ризик репутації - наявний або потенційний ризик для доходу й капіталу, який виникає внаслідок несприятливого сприйняття іміджу фінансової установи клієнтами, контрагентами, засновниками або органами нагляду.

Управління ризиком репутації:

- керівництво Емітента має чітке бачення свого майбутнього й своєї позиції на ринку;
- аналіз виконання запланованого показника частки ринку, дає можливість вчасно прийняти відповідні рішення;
- аналіз фінансових і гуманітарних причин падіння частки ринку;
- дотримання Кодексу корпоративної етики;
- управління основними ризиками;
- існує PR-служба по зв'язках із громадськістю;
- інформаційна відкритість (публікація звітності);
- використання PR- методів (інтерв'ю, коментарі, статті, проведення опитування клієнтів, проведення брифінгів і прес-конференцій, і культурно-освітніх заходів, надання інформаційних послуг);
- використання Інтернет - ресурсів.

Операційний ризик

Операційний ризик – це потенційний ризик для довгострокового існування установи, який виникає внаслідок недоліків корпоративного керування, систем внутрішнього контролю, неадекватністю інформаційних

технологій і процесів обробки інформації з погляду керованості, універсальності, надійності й безперервності роботи.

Щоденне управління операційним ризиком здійснюється підрозділами банку, шляхом застосування належних механізмів внутрішнього контролю й розробкою належних процедур.

Управління операційним ризиком:

- існування спеціалізованого підрозділу, відповідального за координацію й централізацію управління операційним ризиком;
- існування адекватної, ефективної, доведеної до виконавців внутрішньої нормативної бази;
- кількість і складність обробки операцій у порівнянні з рівнем розвитку й потужністю операційних і контрольних систем, з огляду на моральне старіння операційних систем, статистику збоїв і перспективи її наступного вдосконалювання;
- наявність інформації про кількість, причини й характер порушень процедур адміністративного й облікового контролю;
- адекватність стратегії щодо інформаційних технологій.

Перспективи діяльності на поточний та наступний роки

Діяльність Емітента спрямована на забезпечення створення ефективних механізмів та моделей рефінансування первинних іпотечних кредиторів, створення чітких та прозорих умов рефінансування, створення дієвих та уніфікованих вимог до іпотечних житлових кредитів, а також вимог до основних учасників іпотечного ринку-банківських установ та позичальників, що в цілому сприятиме розширенню доступу громадян України до іпотечних житлових кредитів та зниженню вартості іпотечних житлових кредитів для кінцевих позичальників.

Основна діяльність Емітента передбачає рефінансування іпотечних кредиторів та випуск боргових зобов'язань для рефінансування даної діяльності.

Перспективи діяльності Емітента визначені Бізнес-планом (програмою діяльності) Державної іпотечної установи на 2009-2015 роки.

В планах поточного року показники плануються з урахуванням фінансових ресурсів, у т.ч. запозичення коштів шляхом емісії гарантованих державою облігацій та іпотечних цінних паперів відповідно до чинного законодавства, номінованих в національній валюті.

У 2009 році Емітент планує здійснити завершення розміщення звичайних іпотечних облігацій на суму 150 млн. гривень, реєстрація випуску яких ДКЦПФР здійснила у серпні місяці 2008 року, на загальну номінальну суму 200 млн.гривень.

30 грудня 2008 року Емітенту була надана Державна гарантія відповідно до статті 13 Закону України «Про Державний бюджет України на 2008 рік» у розмірі 1 млрд. гривень. Випуск облігацій передбачених цим проспектом емісії має додаткове забезпечення у формі вищезазначеної Державної гарантії.

Протягом 2009 року Емітент буде здійснювати операції з рефінансування первинних кредиторів із застосуванням наступних інструментів рефінансування:

- набуття у первинних кредиторів прав вимоги за договорами про іпотечний кредит на весь строк встановлений таким договором;

- надання фінансових кредитів первинним кредиторам на строк до 180 днів та отримання у заставу майнових прав за договорами про іпотечний кредит, які надані у відповідності вимогам Емітента до іпотечних кредитів.

Стратегічне завдання Емітента визначено Бізнес-планом (програмою діяльності) Державної іпотечної установи на 2009-2015 роки, якою передбачено забезпечення ринкової частки Емітента на ринку іпотечного кредитування із застосуванням інструментів рефінансування та встановлення її у кінці 2015 року у розмірі 8,9% від загального обсягу заборгованості за іпотечними кредитами та/або у розмірі 27,9% від обсягу заборгованості у національній валюті.

Приймаючи до уваги особливості та специфіку інституціональної структури фінансового сектору країни, а також об'єктивні умови здійснення операцій на ринку житлового іпотечного кредитування, Емітент при визначенні напрямів своєї діяльності орієнтуватиметься, в першу чергу, на ефективну співпрацю з банками як первинними кредиторами, які здатні забезпечити належний рівень моніторингу і контролю за наданням та супроводженням іпотечних кредитів.

Протягом реалізації запозичень під державні гарантії у 2009-2015 роках Емітент буде здійснювати операції з рефінансування первинних кредиторів відповідно до Стандартів Емітента та її внутрішніх нормативних документів.

Іпотечні житлові кредити, які надаються первинними кредиторами та операції з їх рефінансування повинні відповідати діючим Стандартам Емітента з урахуванням вимог, встановлених постановою Кабінету Міністрів України від 03.08.2006 р. № 1094 (із змінами та доповненнями).

Для забезпечення здійснення операцій з рефінансування первинних кредиторів-банків Емітент буде розміщувати кошти від здійснення гарантованих запозичень у кредити іпотечним кредиторам - банкам, виконання зобов'язань за якими забезпечене іпотечними активами та іншими активами, види та вимоги до яких встановлені Національним банком:

- на строк до 180 днів з метою формування банками портфелю іпотечних кредитів;

- на строк до 2,5 (двох з половиною) років для здійснення первинними кредиторами-банками кредитування фізичних осіб - довірителів фондів фінансування будівництва з метою придбання у власність об'єктів інвестування (житла) відповідно до Закону України "Про фінансово-кредитні механізми і управління майном при будівництві житла та операціях з нерухомістю";

- операції з рефінансування шляхом відступлення прав вимоги за іпотечними кредитами за рахунок залучених коштів за державною гарантією здійснюються на весь строк дії договору про іпотечний кредит. При цьому Установа залишає за собою право вимагати повернення коштів рефінансування за місяць до настання строку повернення запозичень, залежно від достатності коштів Установи для повернення запозичень.

За коштами, які залучені Емітентом під державну гарантію ставка рефінансування погоджується з Міністерством фінансів України.

З урахуванням ставки рефінансування первинний кредитор встановлює відсоткову ставку для позичальників за користування іпотечними кредитами, виданими за Стандартами Емітента. Така відсоткова ставка за користуванням іпотечними кредитом встановлюється у відповідності до внутрішніх методик та процедур первинного кредитора.

Розмір винагороди, яку отримує первинний кредитор за здійснення обслуговування іпотечних кредитів, визначається як різниця між ставкою рефінансування Установою первинного кредитора та відсотковою ставкою за користування іпотечним кредитом.

Зважаючи на наявний потенціал та можливості Емітента, утверджуючи статус низькоризикової та високонадійної фінансової інституції, має стати основою розвитку іпотечного ринку (як первинного, так і вторинного) та ефективної системи рефінансування.

Значний потенціал Емітента, як одного з провідних учасників ринку житлової іпотеки, може бути належним чином використаний в рамках створення ефективних механізмів вирішення проблеми забезпечення житлом окремих категорій громадян, створення системи соціальних переваг та стимулів для підвищення рівня соціального захисту українських громадян.

Унікальна позиція Емітента на ринку іпотечного кредитування, її державний статус можуть стати запорукою та додатковими факторами успіху, стрімкого і динамічного розвитку.

Відомості про провадження у справі про банкрутство або про застосування санації стосовно емітента чи попереднього суб'єкта господарювання, в результаті реорганізації якого утворився емітент, протягом трьох років, що передували року проведення випуску облігацій

Протягом останніх трьох років стосовно емітента не порушувались та не застосовувались процедури банкрутства, санації. Емітент не утворений у результаті реорганізації іншого суб’єкта господарювання.

Інформація про грошові зобов'язання емітента (кредитна історія емітента), які існують на дату прийняття рішення про розміщення облігацій чи не були виконані:

Емітента не має існуючих або не виконаних грошових зобов’язань.

Фінансова звітність Емітента

Додаток 1 – фінансова звітність за станом на 31 грудня 2006 р.
Додаток 2 – фінансова звітність за станом на 31 грудня 2007 р.
Додаток 3 – фінансова звітність за станом на 31 грудня 2008 р.

3. Інформація про облігації
/ не чинна редакція/

(Нова редакція викладена в Змінах до проспекту емісії облігацій третього випуску - серії "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серії "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серії "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серії "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серії "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" ДІУ, зареєстрованих ДКЦПФР 19.02.2009 року)

Дата і номер рішення (протоколу) про розміщення облігацій

Рішення Правління Державної іпотечної установи від 03.02.2009 року № 230/2.

У складі Правління Державної іпотечної установи 4 члени Правління. На засіданні 03.02.2009 року були присутні 3 члени Правління Державної іпотечної установи. Відповідно до норм Положення про Правління Державної іпотечної установи, засідання було правомочним. Рішення було прийнято одноголосно.

Найменування органу, який прийняв рішення

Правління Державної іпотечної установи на підставі Параметрів випуску облігацій, затверджених Наглядовою Радою Державної іпотечної установи Протокол засідання від 11 вересня 2008 року № 31 та погоджених органом управлінням – Міністерством фінансів України 11.08.2008 року.

Параметри випуску:

Облігації пропонуються до розміщення 5 випусками: третій випуск - серії "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертий випуск - серії "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятий випуск - серії "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостий випуск - серії "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомий випуск - серії "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2".

У зв'язку із випуском облігацій у бездокументарній формі, облігації не мають порядкових номерів.

Характеристика облігацій:

Усі облігацій третього випуску - серії "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серії "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серії "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серії "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серії "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" - іменні, відсоткові, з додатковим забезпеченням.

Кількість облігацій у випуску:

10 000 (десять тисяч) штук відсоткових іменних облігацій, з них:

Третій випуск	*-*	*2 000*	*(Дві тисячі) штук,*
у тому числі:			
серія	*"Z"*	*- 200*	*(Двісті) штук;*
серія	*"A1"*	*- 200*	*(Двісті) штук;*
серія	*"B1"*	*- 200*	*(Двісті) штук;*
серія	*"C1"*	*- 200*	*(Двісті) штук;*
серія	*"D1"*	*- 200*	*(Двісті) штук;*
серія	*"E1"*	*- 200*	*(Двісті) штук;*
серія	*"F1"*	*- 200*	*(Двісті) штук;*
серія	*"G1"*	*- 200*	*(Двісті) штук;*
серія	*"H1"*	*- 200*	*(Двісті) штук;*
серія	*"I1"*	*- 200*	*(Двісті) штук.*

Четвертий випуск	*-*	*2 000*	*(Дві тисячі) штук,*
у тому числі:			
серія "J1"		*- 200*	*(Двісті) штук;*
серія "K1"		*- 200*	*(Двісті) штук;*
серія "L1"		*- 200*	*(Двісті) штук;*
серія "M1"		*- 200*	*(Двісті) штук;*
серія "N1"		*- 200*	*(Двісті) штук;*
серія "O1"		*- 200*	*(Двісті) штук;*
серія "P1"		*- 200*	*(Двісті) штук;*
серія "Q1"		*- 200*	*(Двісті) штук;*
серія "R1"		*- 200*	*(Двісті) штук;*
серія "S1"		*- 200*	*(Двісті) штук.*
П'ятий випуск	*-*	*2 000*	*(Дві тисячі) штук,*
у тому числі:			
серія "T1"		*- 200*	*(Двісті) штук;*
серія "U1"		*- 200*	*(Двісті) штук;*
серія "V1"		*- 200*	*(Двісті) штук;*
серія "W1"		*- 200*	*(Двісті) штук;*
серія "X1"		*- 200*	*(Двісті) штук;*
серія "Y1"		*- 200*	*(Двісті) штук;*
серія "Z1"		*- 200*	*(Двісті) штук;*
серія "A2"		*- 200*	*(Двісті) штук;*
серія "B2"		*- 200*	*(Двісті) штук;*
серія "C2"		*- 200*	*(Двісті) штук.*
Шостий випуск	*-*	*2 000*	*(Дві тисячі) штук,*
у тому числі:			
серія "D2"		*- 200*	*(Двісті) штук;*
серія "E2"		*- 200*	*(Двісті) штук;*
серія "F2"		*- 200*	*(Двісті) штук;*
серія "G2"		*- 200*	*(Двісті) штук;*
серія "H2"		*- 200*	*(Двісті) штук;*
серія "I2"		*- 200*	*(Двісті) штук;*
серія "J2"		*- 200*	*(Двісті) штук;*
серія "K2"		*- 200*	*(Двісті) штук;*
серія "L2"		*- 200*	*(Двісті) штук;*
серія "M2"		*- 200*	*(Двісті) штук.*
Сьомий випуск	*-*	*2 000*	*(Дві тисячі) штук,*
у тому числі:			
серія "N2"		*- 200*	*(Двісті) штук;*
серія "O2"		*- 200*	*(Двісті) штук;*
серія "P2"		*- 200*	*(Двісті) штук;*
серія "Q2"		*- 200*	*(Двісті) штук;*
серія "R2"		*- 200*	*(Двісті) штук;*
серія "S2"		*- 200*	*(Двісті) штук;*
серія "T2"		*- 200*	*(Двісті) штук;*

серія "U2" - 200 (Двісті) штук;
серія "V2" - 200 (Двісті) штук;
серія "W2" - 200 (Двісті) штук.

Номінальна вартість облігацій: *номінальна вартість однієї облігації кожної серії кожного випуску - 100 000 (сто тисяч) гривень.*

Загальна номінальна вартість випуску облігацій:

1 000 000 000 (один мільярд) гривень, з них:

Третій випуск - 200 000 000 (Двісті мільйонів) гривень,
у тому числі:
серія "Z" - 20 000 000 (Двадцять мільйонів) гривень;
серія "A1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "B1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "C1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "D1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "E1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "F1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "G1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "H1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "I1" - 20 000 000 (Двадцять мільйонів) гривень.

Четвертий випуск - 200 000 000 (Двісті мільйонів) гривень,
у тому числі:
серія "J1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "K1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "L1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "M1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "N1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "O1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "P1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "Q1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "R1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "S1" - 20 000 000 (Двадцять мільйонів) гривень.

П'ятий випуск - 200 000 000 (Двісті мільйонів) гривень,
у тому числі:
серія "T1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "U1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "V1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "W1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "X1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "Y1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "Z1" - 20 000 000 (Двадцять мільйонів) гривень;
серія "A2" - 20 000 000 (Двадцять мільйонів) гривень;
серія "B2" - 20 000 000 (Двадцять мільйонів) гривень;
серія "C2" - 20 000 000 (Двадцять мільйонів) гривень.

Шостий випуск	*-*	*200 000 000*	*(Двісті мільйонів) гривень,*
у тому числі:			
серія "D2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
серія "E2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "F2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "G2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "H2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "I2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "J2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "K2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "L2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "M2"		*- 20 000 000*	*(Двадцять мільйонів) гривень.*
Сьомий випуск	*-*	*200 000 000*	*(Двісті мільйонів) гривень,*
у тому числі:			
Серія "N2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "O2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "P2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "Q2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "R2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "S2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "T2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "U2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "V2"		*- 20 000 000*	*(Двадцять мільйонів) гривень;*
Серія "W2"		*- 20 000 000*	*(Двадцять мільйонів) гривень.*

Форма існування облігацій:

третього випуску - серії "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серії "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серії "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серії "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серії "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" – бездокументарна.

Наявність додаткового забезпечення:

Облігації мають додаткове забезпечення у формі Державної гарантії за зобов'язаннями Емітента (Державна гарантія за зобов'язаннями Державної іпотечної установи від 30 грудня 2008 року № 28020-02/151), що видана Кабінетом Міністрів України в особі Міністра фінансів України від 30 грудня 2008 року (далі – Гарант). Державна гарантія видана відповідно до статті 17 Бюджетного кодексу України, статті 13 Закону України "Про Державний бюджет України на 2008 рік та про внесення змін до деяких законодавчих актів України" та постанови Кабінету Міністрів України від 03.08.2006 № 1094 (із змінами та доповненнями).

Державна гарантія видана Гарантом у забезпечення виконання зобов'язань Емітента з виплати власникам облігацій номінальної вартості облігацій (повернення основної суми боргу) при їх погашенні на дату закінчення обігу облігацій,

передбачених проспектом емісії облігацій, погодженим з Міністерством фінансів, та який пройшов державну реєстрацію Державною комісією з цінних паперів та фондового ринку. Повернення основної суми боргу за облігаціями забезпечено Державною гарантією на загальну суму 1 000 000 000 (один мільярд) гривень.

Державна гарантія є публічною. У разі невиконання Емітентом Гарантованих зобов'язань, будь-яка особа, що є власником облігацій, має право пред'явити Гарантові вимоги щодо виконання зобов'язань за Державною гарантією за умов, у порядку й строки, зазначені в Державній гарантії.

Державна гарантія є безвідкличною.

Умови Державної гарантії не можуть бути змінені протягом усього терміну дії Державної гарантії.

Умови Державної гарантії підлягають включенню в повному обсязі в цей проспект емісії.

Зобов'язання Гаранта за Державною гарантією поширюються тільки на випадки невиконання Емітентом Гарантованих зобов'язань. Гарант не гарантує виконання Емітентом будь-яких інших зобов'язань перед власниками облігацій, в тому числі зобов'язань по сплаті сум відсотків, нарахованих на облігації, будь-яких комісій, неустойки, штрафів, пені за прострочення виконання зобов'язань за облігаціями; для уникнення сумнівів, прострочене виконання або невиконання Установою таких зобов'язань перед власниками облігацій не є гарантійним випадком, на який поширюється ця Державна гарантія. Крім того, Гарант не відповідає за відшкодування судових витрат власників облігацій із стягнення з Емітента заборгованості та/або відшкодування збитків та/або шкоди власникам облігацій, що пов'язані з невиконанням або неналежним виконанням Емітентом будь-яких своїх зобов'язань за облігаціями, в тому числі Гарантованих зобов'язань.

Облігації надають власникам усі права, що випливають із Державної гарантії з урахуванням положень, визначених у цьому Рішенні. З переходом прав власності на облігації до набувача переходять права по Державній гарантії в тому ж обсязі й на тих умовах, які існують на момент переходу прав власності на облігації. Передача прав, що виникли з Державної гарантії, без передачі прав власності на облігації є недійсною.

Мета випуску облігацій:

Емітент використовує запозичення виключно для кредитування банків за умови відступлення ними на користь Емітента прав вимоги за іпотечними житловими кредитами (далі – кредити), які відповідають затвердженим Емітентом вимогам до таких кредитів (далі – рефінансування).

Джерелами погашення облігацій і виплати відсоткових доходів по них будуть виступати кошти, отримані Емітентом в результаті статутної діяльності Емітента після розрахунків з бюджетом та сплати інших обов'язкових платежів.

Зобов'язання ви щодо невикористання коштів, залучених від розміщення облігацій, для покриття його збитків

Емітент зобов'язується не використовувати кошти, залучені від розміщення облігацій, для формування, поповнення статутного капіталу та покриття збитків від господарської діяльності.

Права, що надаються власникам облігацій

Власники облігацій мають права, передбачені чинним законодавством, зокрема:

- *отримати номінальну вартість облігацій при настанні строку їх погашення;*
- *отримувати відсоткові доходи у вигляді нарахованих відсотків на номінальну вартість облігацій, що йому належать, після закінчення кожного відсоткового періоду;*
- *самостійно визначати Зберігача облігацій;*
- *права на здійснення інших операцій, що не суперечать чинному законодавству та умовам випуску.*

Порядок розміщення облігацій

Адреси місць, дати початку та закінчення розміщення облігацій

Облігації розміщуються шляхом їх відчуження на підставі опублікування в засобах масової інформації або оголошення будь-яким іншим способом повідомлення про продаж цінних паперів, зверненого до заздалегідь не визначеної кількості інвесторів – юридичних та фізичних осіб, резидентів та нерезидентів.

Розміщення облігацій Емітентом здійснює самостійно (без участі торговця цінними паперами - андеррайтера) через одного з організаторів торгівлі: Відкрите акціонерне товариство «Фондова біржа «Перспектива», Фондову біржу ПФТС, ЗАТ "Українська міжбанківська валютна біржа", за адресою: Україна, 04119, м. Київ, вул. Шолуденка, 1-б, тел.: (38 044) 483-4471, 483-4427, факс: (38 044) 483-44-80.

Дата початку розміщення облігацій третього випуску - серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" - 20 лютого 2009 р.

Дата закінчення розміщення облігацій третього випуску - серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" - 19 лютого 2010 р.

Можливість дострокового закінчення розміщення

Можливе дострокове закінчення розміщення облігацій третього випуску - серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску-

серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" у разі, якщо усі облігації відповідної серії були розміщенні до 19 лютого 2010 року та повністю оплачені.

Рішення про затвердження результатів дострокового розміщення облігацій приймається Правлінням Емітента.

Порядок оплати облігацій:

Запланована ціна продажу облігацій під час розміщення

Запланований курс у 1-й день продажу складає 100% від номінальної вартості облігацій.

Ціна продажу облігацій при їх розміщенні в подальшому встановлюється в процесі переговорів між Емітентом та Інвестором, виходячи з кон'юнктури ринку на дату розміщення, але не може бути менше номінальної вартості.

Емітент здійснює первинне розміщення облігацій через одного з організаторів торгівлі: Відкрите акціонерне товариство «Фондова біржа «Перспектива», Фондову біржу ПФТС, ЗАТ "Українська міжбанківська валютна біржа". Випуск вважається таким, що відбувся, за умови продажу хоча б однієї облігації.

Валюта у якій здійснюється оплата облігацій:

Оплата облігацій здійснюється у національній валюті України – гривні.

Найменування і реквізити банківської установи та номер поточного рахунку, на який вноситиметься оплата за облігації

Докладний опис порядку оплати облігацій із зазначенням найменування банківської установи та номера поточного рахунку, на який вноситиметься оплата за облігації

При розміщенні облігацій їх оплата здійснюється покупцями (інвесторами) на рахунок Емітента:

№ 26506301869 в ВАТ "Державний ощадний банк України" (код банку 300465), код ЄДРПОУ 33304730 відповідно до договору купівлі–продажу облігацій, укладеного між Емітентом та Інвестором, за рахунок коштів, що знаходяться у їх розпорядженні після сплати податків та обов'язкових платежів.

Для купівлі облігацій, Інвестори повинні відкрити рахунки у цінних паперах у обраного ними Зберігача, ліцензованого Державною комісією з цінних паперів та фондового ринку.

Повна оплата здійснюється у порядку та на умовах, визначених договором купівлі-продажу облігацій, який укладається між Емітентом та Інвестором, але не може бути пізніше дати закінчення розміщення облігацій.

У випадку, якщо у встановлений строк після підписання договору купівлі-продажу облігацій, кошти від покупця на поточний рахунок Емітента не надійдуть, Емітент має право реалізувати ці облігації іншому інвестору у строк не пізніше дати закінчення розміщення облігацій

Емітент переказує облігації на рахунок Інвестора у Зберігача згідно з умовами договору купівлі-продажу облігацій, який укладається між Емітентом та

Інвестором. Право власності на облігації, придбані у ході первинного продажу, виникає з моменту їх зарахування на рахунок у цінних паперах власника у Зберігача та підтверджується випискою з цього рахунку.

Умови та дата закінчення обігу облігацій, можливість викупу Емітентом облігацій у їх власників.

Облігації третього випуску - серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" обертаються вільно на території України протягом всього терміну їх обігу. Власниками облігацій можуть бути фізичні та юридичні особи, резиденти та нерезиденти України.

Обіг облігацій починається після реєстрації Державною комісією з цінних паперів та фондового ринку звіту про результати розміщення облігацій та отримання свідоцтва про реєстрацію випуску облігацій.

Результати розміщення облігацій та звіт про результати розміщення облігацій затверджується Правлінням Емітента.

Запланований обіг облігацій відповідної серії кожного випуску закінчується в останній день (станом на 13-00) останього купоного періоду відповідної серії відповідного випуску.

За згодою обох сторін, власник облігацій Емітента може надати такі облігації для їх викупу Емітентом. Викуп може здійснюватися Емітентом на протязі всього строку обігу облігацій Емітентом. Емітент здійснює викуп облігацій у власника таких облігацій за ціною, яка визначається за згодою обох сторін. Про свій намір надати облігації для їх викупу власник таких облігацій повідомляє про це у письмовій формі Емітента. На наступний робочий день після отримання Емітентом такого письмового повідомлення Емітент проводить переговори з власником облігацій щодо строку та ціни викупу. У разі досягнення згоди обох сторін Емітент здійснює викуп облігацій та укладає з власником таких облігацій договір купівлі-продажу у строки та за ціною визначеною сторонами.

Емітент має право через обраного ним торговця цінними паперами здійснювати подальшу реалізацію викуплених облігацій, укладати цивільно-правові угоди відносно викуплених облігацій, зберігати облігації на рахунку у цінних паперах до погашення випуску та здійснювати по відношенню до таких облігацій інші дії, що відповідають чинному законодавству України.

Обіг облігацій здійснюється по рахунках у цінних паперах, що відкриті у зберігачів та у депозитарії ВАТ "Національний депозитарій України".

Порядок виплати відсоткового доходу за облігаціями

Адреси місць, дати початку і закінчення виплати доходу за облігаціями

Виплати відсоткового доходу здійснюються Емітентом в національній валюті України відповідно до зведеного облікового реєстру власників облігацій, який складається на кінець операційного дня, що передує дню виплати відсоткового доходу та надається депозитарієм ВАТ "Національний депозитарій України" на дату виплати відсоткового доходу за адресою:

Україна, 04119, м. Київ, вул. Шолуденка, 1-б, тел.: (38 044) 483-44-71, 483-44-18, факс: (38 044) 483-44-80.

Виплати відсоткового доходу власникам здійснюються на їх поточні рахунки. Дохід за облігаціями нараховується у відсотках від номінальної вартості облігацій відповідно до відсоткових періодів та встановленої на такий період відсоткової ставки.

Для облігацій третього випуску - серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" з першого по дев'ятнадцятий відсотковий періоди Емітент встановлює такі параметри:

Порядковий номер відсоткового періоду	Дата початку відсоткового періоду	Дата закінчення відсоткового періоду	Кількість днів у відсотково-му періоді	Дата виплати відсотків	Процентна ставка для виплати процентного доходу, (% річних)	Сума процентної виплати на одну облігацію, (грн.)
1	20.02.2009	21.05.2009	91	22.05.2009	9,50%	2 368,49
2	22.05.2009	20.08.2009	91	21.08.2009	9,50%	2 368,49
3	21.08.2009	19.11.2009	91	20.11.2009	9,50%	2 368,49
4	20.11.2009	18.02.2010	91	19.02.2010	9,50%	2 368,49
5	19.02.2010	20.05.2010	91	21.05.2010	9,50%	2 368,49
6	21.05.2010	19.08.2010	91	20.08.2010	9,50%	2 368,49
7	20.08.2010	18.11.2010	91	19.11.2010	9,50%	2 368,49
8	19.11.2010	17.02.2011	91	18.02.2011	9,50%	2 368,49
9	18.02.2011	19.05.2011	91	20.05.2011	9,50%	2 368,49
10	20.05.2011	18.08.2011	91	19.08.2011	9,50%	2 368,49
11	19.08.2011	17.11.2011	91	18.11.2011	9,50%	2 368,49
12	18.11.2011	16.02.2012	91	17.02.2012	9,50%	2 368,49
13	17.02.2012	17.05.2012	91	18.05.2012	9,50%	2 368,49
14	18.05.2012	16.08.2012	91	17.08.2012	9,50%	2 368,49
15	17.08.2012	15.11.2012	91	16.11.2012	9,50%	2 368,49
16	16.11.2012	14.02.2013	91	15.02.2013	9,50%	2 368,49
17	15.02.2013	16.05.2013	91	17.05.2013	9,50%	2 368,49
18	17.05.2013	15.08.2013	91	16.08.2013	9,50%	2 368,49
19	16.08.2013	14.11.2013	91	15.11.2013	9,50%	2 368,49

Останній відсотковий період для облігацій третього випуску серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1" встановлено:
серія "Z":

20	15.11.2013	10.01.2014	57	11.01.2014	9,50%	1 483,56

серія "A1":

20	15.11.2013	11.01.2014	58	12.01.2014	9,50%	1 509,59

серія "B1":

20	15.11.2013	12.01.2014	59	13.01.2014	9,50%	1 535,62

серія "C1":

20	15.11.2013	13.01.2014	60	14.01.2014	9,50%	1 561,64

серія "D1":

20	15.11.2013	14.01.2014	61	15.01.2014	9,50%	1 587,67

серія "E1":

20	15.11.2013	15.01.2014	62	16.01.2014	9,50%	1 613,70

серія "F1":

20	15.11.2013	16.01.2014	63	17.01.2014	9,50%	1 639,73

серія "G1":

20	15.11.2013	17.01.2014	64	18.01.2014	9,50%	1 665,75

серія "H1":

20	15.11.2013	18.01.2014	65	19.01.2014	9,50%	1 691,78

серія "I1":

20	15.11.2013	19.01.2014	66	20.01.2014	9,50%	1 717,81

Останній відсотковий період для облігацій четвертого випуску серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1" встановлено:
серія "J1":

20	15.11.2013	20.01.2014	67	21.01.2014	9,50%	1 743,84

серія "K1":

20	15.11.2013	21.01.2014	68	22.01.2014	9,50%	1 769,86

серія "L1":

20	15.11.2013	22.01.2014	69	23.01.2014	9,50%	1 795,89

серія "M1":

20	15.11.2013	23.01.2014	70	24.01.2014	9,50%	1 821,92

серія "N1":

20	15.11.2013	24.01.2014	71	25.01.2014	9,50%	1 847,95

серія "O1":

20	15.11.2013	25.01.2014	72	26.01.2014	9,50%	1 873,97

серія "P1":

20	15.11.2013	26.01.2014	73	27.01.2014	9,50%	1 900,00

серія "Q1":

20	15.11.2013	27.01.2014	74	28.01.2014	9,50%	1 926,03

серія "R1":

20	15.11.2013	28.01.2014	75	29.01.2014	9,50%	1 952,05

серія "S1":

20	15.11.2013	29.01.2014	76	30.01.2014	9,50%	1 978,08

Останній відсотковий період для облігацій п'ятого випуску серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2" встановлено:
серія "T1":

20	15.11.2013	30.01.2014	77	31.01.2014	9,50%	2 004,11

серія "U1":

20	15.11.2013	31.01.2014	78	01.02.2014	9,50%	2 030,14

серія "V1":

20	15.11.2013	01.02.2014	79	02.02.2014	9,50%	2 056,16

серія "W1":

20	15.11.2013	02.02.2014	80	03.02.2014	9,50%	2 082,19

серія "X1":

20	15.11.2013	03.02.2014	81	04.02.2014	9,50%	2 108,22

серія "Y1":

20	15.11.2013	04.02.2014	82	05.02.2014	9,50%	2 134,25

серія "Z1":

20	15.11.2013	05.02.2014	83	06.02.2014	9,50%	2 160,27

серія "A2":

20	15.11.2013	06.02.2014	84	07.02.2014	9,50%	2 186,30

серія "B2":

20	15.11.2013	07.02.2014	85	08.02.2014	9,50%	2 212,33

серія "C2":

20	15.11.2013	08.02.2014	86	09.02.2014	9,50%	2 238,36

Останній відсотковий період для облігацій шостого випуску серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2" встановлено:
серія "D2":

20	15.11.2013	09.02.2014	87	10.02.2014	9,50%	2 264,38

серія "E2":

20	15.11.2013	10.02.2014	88	11.02.2014	9,50%	2 290,41

серія "F2":

20	15.11.2013	11.02.2014	89	12.02.2014	9,50%	2 316,44

серія "G2":

20	15.11.2013	12.02.2014	90	13.02.2014	9,50%	2 342,47

серія "H2":

20	15.11.2013	13.02.2014	91	14.02.2014	9,50%	2 368,49

серія "I2":

20	15.11.2013	14.02.2014	92	15.02.2014	9,50%	2 394,52

серія "J2":

20	15.11.2013	15.02.2014	93	16.02.2014	9,50%	2 420,55

серія "K2":

20	15.11.2013	16.02.2014	94	17.02.2014	9,50%	2 446,58

серія "L2":

20	15.11.2013	17.02.2014	95	18.02.2014	9,50%	2 472,60

серія "M2":

20	15.11.2013	18.02.2014	96	19.02.2014	9,50%	2 498,63

Для облігацій серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", W2" з двадцятого по двадцять сьомий відсотковий періоди Установа встановлює такі параметри: "

Порядковий номер відсоткового періоду	**Дата початку відсоткового періоду**	**Дата закінчення відсоткового періоду**	**Кількість днів у відсотково-му періоді**	**Дата виплати відсотків**	**Процентна ставка для виплати процентного доходу, (% річних)**	**Сума процентної виплати на одну облігацію, (грн.)**
20	15.11.2013	13.02.2014	91	14.02.2014	9,50%	2 368,49
21	14.02.2014	15.05.2014	91	16.05.2014	9,50%	2 368,49
22	16.05.2014	14.08.2014	91	15.08.2014	9,50%	2 368,49
23	15.08.2014	13.11.2014	91	14.11.2014	9,50%	2 368,49
24	14.11.2014	12.02.2015	91	13.02.2015	9,50%	2 368,49
25	13.02.2015	14.05.2015	91	15.05.2015	9,50%	2 368,49
26	15.05.2015	13.08.2015	91	14.08.2015	9,50%	2 368,49
27	14.08.2015	12.11.2015	91	13.11.2015	9,50%	2 368,49

Останній відсотковий період для облігацій сьомого випуску серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" встановлено:

серія "N2":

28	13.11.2015	02.02.2016	82	03.02.2016	9,50%	2 134,25

серія "O2":

28	13.11.2015	03.02.2016	83	04.02.2016	9,50%	2 160,27

серія "P2":

28	13.11.2015	04.02.2016	84	05.02.2016	9,50%	2 186,30

серія "Q2":

28	13.11.2015	05.02.2016	85	06.02.2016	9,50%	2 212,33

серія "R2":

28	*13.11.2015*	*06.02.2016*	*86*	*07.02.2016*	*9,50%*	*2 238,36*

серія "S2":

28	*13.11.2015*	*07.02.2016*	*87*	*08.02.2016*	*9,50%*	*2 264,38*

серія "T2":

28	*13.11.2015*	*08.02.2016*	*88*	*09.02.2016*	*9,50%*	*2 290,41*

серія "U2":

28	*13.11.2015*	*09.02.2016*	*89*	*10.02.2016*	*9,50%*	*2 316,44*

серія "V2":

28	*13.11.2015*	*10.02.2016*	*90*	*11.02.2016*	*9,50%*	*2 342,47*

серія "W2":

28	*13.11.2015*	*11.02.2016*	*91*	*12.02.2016*	*9,50%*	*2 368,49*

Виплата відсоткового доходу за облігаціями здійснюється власникам облігацій з урахуванням чинного законодавства України. Якщо дата виплати у відсотковому періоді припадає на вихідний, святковий або неробочий дні за законодавством України, виплата відсоткового доходу здійснюється у перший робочий день після такого вихідного, святкового або неробочого дня.

Відсотки виплачуються з періодичністю один раз на три місяці.

Виплата доходу за останнім відсотковим періодом здійснюється одночасно з погашенням облігацій.

Виплата відсоткового доходу за облігаціями здійснюється власникам облігацій з урахуванням чинного законодавства України. Якщо дата виплати у відсотковому періоді припадає на вихідний, святковий або неробочий дні за законодавством України, виплата відсоткового доходу здійснюється у перший робочий день після такого вихідного, святкового або неробочого дня.

Відсотки виплачуються з періодичністю один раз на три місяці.

Виплата доходу за останнім відсотковим періодом здійснюється одночасно з погашенням облігацій.

Заплановані відсотки, метод обчислення, порядок виплати доходів, здійснення операцій і депонування.

Процентна ставка для облігацій третього випуску - серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1", четвертого випуску - серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1", п'ятого випуску - серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2", шостого випуску - серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2", сьомого випуску - серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" встановлюється на рівні 9,5 % річних.

Остання виплата процентів по облігаціях кожної серії кожного випуску здійснюється одночасно з погашенням відповідної серії облігацій такого випуску.

Виплати по облігаціях:

Відсотки по облігаціях нараховуються відповідно до відсоткових періодів, визначених в цьому проспекту.

Сума відсотків, що підлягає виплаті власнику облігації за черговим відсотковим періодом, розраховується за формулою:

$$Kj = (N \times Cj \times Tj) / (T \times 100)$$

де

j - порядковий номер відсоткового періоду;

Kj – сума відсотків за кожною облігацією в j – му відсотковому періоді;

N – номінальна вартість облігацій;

Cj – відсоткова ставка j-го відсоткового періоду;

Tj – кількість днів у j-му відсотковому періоді;

T – кількість днів у році (365 днів).

Сума відсотків визначається на одну облігацію з точністю до 1 копійки за правилами математичного округлення.

На дату виплати відсоткового доходу за облігаціями Емітент отримує в депозитарії ВАТ "Національний депозитарій України" зведений обліковий реєстр власників облігацій, складений на кінець робочого дня, що передує даті виплати відсотків. На підставі зведеного облікового реєстру Емітент розраховує суми виплати відсоткового доходу та виплачує власникам облігацій належний їм відсотковий доход згідно з вимогами чинного законодавства та умовами випуску.

У разі відсутності у зведеному обліковому реєстрі облігацій даних щодо реквізитів поточного рахунка власника облігацій, або реквізити є помилковими, належна до виплати сума депонується на рахунку № 26506301869 в ВАТ "Державний ощадний банк України" (код банку 300465), код ЄДРПОУ 33304730, до особистого письмового звернення власника. Відсотки на депоновані кошти не нараховуються.

Виплата коштів за облігаціями, власником яких є нерезидент здійснюється Емітентом за вирахуванням податку на прибуток, відповідно чинного законодавства України. Для визначення суми прибутку від здійснення операцій з облігаціями, нерезидент одночасно із заявою про достроковий викуп облігацій надає нотаріально засвідчені документи, на підставі яких облігації надійшли у власність нерезидента та документів необхідних для утримання податку. Виплата коштів за облігаціями проводиться на користь нерезидента виключено при наданні вищезазначених документів. Прибуток від здійснення операцій з облігаціями визначається Установою відповідно норм Закону України «Про оподаткування прибутку підприємств».

У разі відсутності в зведеному обліковому реєстрі облігацій даних щодо реквізитів поточного рахунку власника таких облігацій, або реквізити є помилковими, належна до виплати сума депонується на рахунку № 26506301869 ВАТ "Державний ощадний банк України" (код банку 300465), код ЄДРПОУ 33304730, до особистого письмового звернення власника. Відсотки на депоновані кошти не нараховуються.

Валюта у якій здійснюється виплата відсоткового доходу:

Виплата відсоткового доходу облігацій здійснюється у національній валюті України – гривні, форма оплати безготівкова.

Порядок погашення облігацій

Адреси місць, дати початку і закінчення погашення облігацій

Погашення облігацій здійснюється Емітентом самостійно у національній валюті України згідно на підставі зведеного облікового реєстру, який складається депозитарієм ВАТ "Національний депозитарій України" на кінець операційного дня, що передує дню погашення облігацій та надається депозитарієм ВАТ "Національний депозитарій України" на дату погашення облігацій, за адресою: Україна, 04119, м. Київ, вул. Шолуденка, 1-б, тел.: (38 044) 483-44-71, 483-44-18, факс: (38 044) 483-44-80.

Погашення облігацій здійснюється протягом одного банківського дня:

для третього випуску серій "Z", "A1", "B1", "C1", "D1", "E1", "F1", "G1", "H1", "I1" встановлено:

серія "Z":	*11.01.2014*
серія "A1":	*12.01.2014*
серія "B1":	*13.01.2014*
серія "C1":	*14.01.2014*
серія "D1":	*15.01.2014*
серія "E1":	*16.01.2014*
серія "F1":	*17.01.2014*
серія "G1":	*18.01.2014*
серія "H1":	*19.01.2014*
серія "I1":	*20.01.2014*

для четвертого випуску серій "J1", "K1", "L1", "M1", "N1", "O1", "P1", "Q1", "R1", "S1" встановлено:

серія "J1":	*21.01.2014*
серія "K1":	*22.01.2014*
серія "L1":	*23.01.2014*
серія "M1":	*24.01.2014*
серія "N1":	*25.01.2014*
серія "O1":	*26.01.2014*
серія "P1":	*27.01.2014*
серія "Q1":	*28.01.2014*
серія "R1":	*29.01.2014*
серія "S1":	*30.01.2014*

для п'ятого випуску серій "T1", "U1", "V1", "W1", "X1", "Y1", "Z1", "A2", "B2", "C2" встановлено:

серія "T1":	*31.01.2014*
серія "U1":	*01.02.2014*
серія "V1":	*02.02.2014*
серія "W1":	*03.02.2014*
серія "X1":	*04.02.2014*
серія "Y1":	*05.02.2014*

серія "Z1": 06.02.2014
серія "A2": 07.02.2014
серія "B2": 08.02.2014
серія "C2": 09.02.2014

для шостого випуску серій "D2", "E2", "F2", "G2", "H2", "I2", "J2", "K2", "L2", "M2" встановлено:

серія "D2": 10.02.2014
серія "E2": 11.02.2014
серія "F2": 12.02.2014
серія "G2": 13.02.2014
серія "H2": 14.02.2014
серія "I2": 15.02.2014
серія "J2": 16.02.2014
серія "K2": 17.02.2014
серія "L2": 18.02.2014
серія "M2": 19.02.2014

для сьомого випуску серій "N2", "O2", "P2", "Q2", "R2", "S2", "T2", "U2", "V2", "W2" встановлено:

серія "N2": 03.02.2016
серія "O2": 04.02.2016
серія "P2": 05.02.2016
серія "Q2": 06.02.2016
серія "R2": 07.02.2016
серія "S2": 08.02.2016
серія "T2": 09.02.2016
серія "U2": 10.02.2016
серія "V2": 11.02.2016
серія "W2": 12.02.2016

Порядок виплати номінальної вартості облігацій

При погашенні облігацій її власникам сплачується номінальна вартість облігацій разом з сумою відсоткових виплат за останній відсотковий період (сума погашення).

Погашення облігацій здійснюється власникам облігацій з урахуванням діючого законодавства України. Якщо дата погашення припадає на вихідний, святковий або неробочий день за законодавством України, погашення здійснюється у перший робочий день після такого вихідного, святкового або неробочого дня.

Для пред'явлення облігацій до погашення власники облігацій переводять належні їм облігації з особистих рахунків у цінних паперах на рахунок Емітента в депозитарії ВАТ "Національний депозитарій України" з 9 години до 13 години дня, що передує дню погашення облігацій.

Емітент перераховує власникам облігацій, які своєчасно подали облігації для погашення, суму погашення на їх поточні рахунки згідно з вимогами діючого законодавства.

У разі відсутності в зведеному обліковому реєстрі облігацій даних щодо реквізитів поточного рахунку власника облігацій, або реквізити є помилковими, належна до виплати сума депонується на рахунку № 26506301869 в ВАТ "Державний ощадний банк України" (код банку 300465), код ЄДРПОУ 33304730, до особистого письмового звернення власника. Відсотки на депоновані кошти не нараховуються.

Виплати номінальної вартості здійснюються у національній валюті України шляхом перерахування грошових коштів на рахунки власників (зберігачів), зазначені у зведеному обліковому реєстрі.

Виплата коштів за викуплені облігації юридичним особам-нерезидентам здійснюється Емітентом за вирахуванням податку на прибуток, відповідно чинного законодавства України. Для визначення суми прибутку від здійснення операцій з облігаціями, юридична особа-нерезидент одночасно із заявою про достроковий викуп облігацій надає Емітенту нотаріально засвідчені документи, на підставі яких облігації надійшли у власність нерезидента. Прибуток від здійснення операцій з облігаціями визначається Емітентом відповідно норм Закону України «Про оподаткування прибутку підприємств».

Можливість дострокового погашення

Дострокове погашення облігацій відповідної серії може бути здійснене Установою у разі дострокового викупу 100% облігацій цієї серії. Рішення про дострокове погашення облігацій приймається Правлінням Емітента

Дії, які провадяться у разі несвоєчасного подання облігацій для погашення

У випадку, якщо власник облігацій не перерахував на дату погашення належні йому облігації зі свого рахунку у цінних паперах на рахунок Емітента в депозитарії ВАТ "Національний депозитарій України" або якщо наданий депозитарієм зведений обліковий реєстр не містить даних про реквізити, за якими повинна бути проведена виплата номінальної вартості цінних паперів, належна до виплати сума депонується протягом строку позовної давності до особистого звернення власників на рахунку № 26506301869 ВАТ "Державний ощадний банк України" (код банку 300465), код ЄДРПОУ 33304730. Відсотки на депоновані кошти не нараховуються.

За облігаціями, які подані для погашення несвоєчасно, розрахунки здійснюються Установою за письмовим зверненням власників облігацій.

Порядок оголошення емітентом дефолту та порядок дій емітента в разі оголошення дефолту:

У разі неспроможності Емітента облігацій у строк та у спосіб, встановлений умовами емісії, погасити повну вартість облігації або сплатити відсотковий дохід за облігаціями Емітент зобов'язаний оголосити про дефолт шляхом надсилання до дати початку погашення облігацій або сплати відсоткового доходу, визначеної умовами розміщення, відповідного повідомлення до Державної комісії з цінних

паперів та фондового ринку та опублікування відповідного повідомлення в тому самому офіційному виданні Державної комісії з цінних паперів та фондового ринку, в якому опубліковано зареєстрований проспект емісії облігацій у строк, що не перевищує 10 (десяти) календарних днів з моменту оголошення дефолту. Емітент зобов'язаний у 10 (десяти) денний термін з дати оголошення дефолту здійснити персональне письмове повідомлення про оголошення дефолту власників пакетів облігацій, але не пізніше 10 (десяти) днів після дати початку погашення облігацій або сплати відсоткового доходу, визначеної умовами розміщення, шляхом направлення рекомендованою поштою відповідних повідомлень на підставі зведеного облікового реєстру власників облігацій, складеного на дату оголошення дефолту депозитарієм, з яким укладено договір про обслуговування випуску облігацій Емітента.

Подальші дії Емітента здійснюються відповідно до Державної гарантії за зобов'язаннями Державної іпотечної установи від 30 грудня 2008 р. № 28020-02/151 та Закону України "Про відновлення платоспроможності боржника або визнання його банкрутом".

Задоволення вимог власників облігацій по виплаті номінальної вартості облігацій здійснюється в порядку встановленому Державної гарантії за зобов'язаннями Державної іпотечної установи від 30 грудня 2008 р. № 28020-02/151

Задоволення вимог власників облігацій виплата у разі дефолта по виплаті відсоткового доходу за облігаціями та відшкодування збитків власників облігацій здійснюється у порядку, строки та у черговості, визначених Законом України "Про відновлення платоспроможності боржника або визнання його банкрутом" та Цивільним кодексом України.

4. Результати попередніх випусків цінних паперів Емітента

19 грудня 2006 року Емітентом було здійснено випуск іменних процентних облігацій з додатковим забезпеченням у формі державної гарантії за зобов'язаннями Емітента, що видана Кабінетом Міністрів України в особі Міністра фінансів України від 19 грудня 2006 року, на загальну номінальну вартість 1 млрд. гривень, в тому числі:

серія "А" – 30 000 000 (тридцять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 786/2/06, дата реєстрації 19.12.2006 р., дата видачі 05.06.2007 р.);

серія "В" – 45 000 000 (сорок п'ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 787/2/06, дата реєстрації 19.12.2006 р., дата видачі 05.06.2007 р.);

серія "С" – 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 788/2/06, дата реєстрації 19.12.2006 р., дата видачі 05.06.2007 р.);

серія "D" – 65 000 000 (шістдесят п'ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 789/2/06, дата реєстрації 19.12.2006 р., дата видачі 05.06.2007 р.);

серія “E” – 85 000 000 (вісімдесят п’ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 790/2/06, дата реєстрації 19.12.2006 р., дата видачі 05.06.2007 р.);

серія “F”– 95 000 000 (дев’яносто п’ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 791/2/06, дата реєстрації 19.12.2006 р., дата видачі 23.10.2007 р.);

серія “G” – 100 000 000 (сто мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 792/2/06, дата реєстрації 19.12.2006 р., дата видачі 25.09.2007 р.);

серія “H” – 150 000 000 (сто п’ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 793/2/06, дата реєстрації 19.12.2006 р., дата видачі 23.10.2007 р.);

серія “I” – 180 000 000 (сто вісімдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 794/2/06, дата реєстрації 19.12.2006 р., дата видачі 25.09.2007 р.);

серія “J” – 200 000 000 (двісті мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 795/2/06, дата реєстрації 19.12.2006 р., дата видачі 23.10.2007 р.).

Строк обігу облігацій:

серія “A” – з 05 червня 2007 року до 13 грудня 2011 року;
серія “B” – з 05 червня 2007 року до 14 грудня 2011 року;
серія “C” – з 05 червня 2007 року до 15 грудня 2011 року;
серія “D” – з 05 червня 2007 року до 16 грудня 2011 року;
серія “E” – з 05 червня 2007 року до 17 грудня 2011 року;
серія “F” – з 23 жовтня 2007 року до 18 грудня 2011 року;
серія “G” – з 25 вересня 2007 року до 19 грудня 2011 року;
серія “H” – з 23 жовтня 2007 року до 20 грудня 2011 року;
серія “I” – з 25 вересня 2007 року до 21 грудня 2011 року;
серія “J” – з 23 жовтня 2007 року до 22 грудня 2011 року.

На момент подання документів для реєстрації випуску облігацій, облігації серій “A”, “B”, “C”, “D”, “E”, “F”, “G”, H”, “I”, “J” Емітента знаходяться в обігу.

Погашення облігацій здійснюється протягом одного банківського дня:

серія “A” – 14 грудня 2011 року;
серія “B” – 15 грудня 2011 року;
серія “C” – 16 грудня 2011 року;
серія “D” – 17 грудня 2011 року;
серія “E” – 18 грудня 2011 року;
серія “F” – 19 грудня 2011 року;
серія “G” – 20 грудня 2011 року;
серія “H” – 21 грудня 2011 року;
серія “I” – 22 грудня 2011 року;
серія “J” – 23 грудня 2011 року.

11 грудня 2006 року Емітентом було здійснено випуск іменних процентних облігацій з додатковим забезпеченням у формі державної гарантії за

зобов'язаннями Емітента, що видана Кабінетом Міністрів України в особі Міністра фінансів України від 30 листопада 2007 року, на загальну номінальну вартість 1 млрд. гривень, в тому числі:

серія "K" – 100 000 000 (сто мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 958/2/07, дата реєстрації 11.12.2007 р., дата видачі 26.06.2008 р.);

серія "L" – 100 000 000 (сто мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 959/2/07, дата реєстрації 11.12.2007 р., дата видачі 26.06.2008 р.);

серія "M" – 100 000 000 (сто мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 960/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "N" – 75 000 000 (сімдесят п'ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 961/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "O" – 75 000 000 (сімдесят п'ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 962/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "P" – 75 000 000 (сімдесят п'ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 963/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "Q" – 75 000 000 (сімдесят п'ять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 964/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "R" –50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 965/2/07, дата реєстрації 26.12.2007 р., дата видачі 26.06.2008 р.);

серія "S" – 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 966/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "T" – 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 967/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "U" – 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 968/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "V" – 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 969/2/07, дата реєстрації 11.12.2007 р., дата видачі 26.06.2008 р.);

серія "W"– 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 970/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія "X"– 50 000 000 (п'ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 971/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.);

серія “Y”– 50 000 000 (п’ятдесят мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР (реєстраційний № 972/2/07, дата реєстрації 11.12.2007 р., дата видачі 16.10.2008 р.).

Строк обігу облігацій:

серія “K” – з 26 червня 2008 року до 06 грудня 2012 року;
серія “L” – з 26 червня 2008 року до 07 грудня 2012 року;
серія “M”– з 16 листопада 2007 року до 08 грудня 2012 року;
серія “N” – з 16 листопада 2007 року до 09 грудня 2012 року;
серія “O” – з 16 листопада 2007 року до 10 грудня 2012 року;
серія “P” – з 16 листопада 2007 року до 11 грудня 2012 року;
серія “Q” – з 16 листопада 2007 року до 12 грудня 2012 року;
серія “R” – з 26 червня 2008 року до 13 грудня 2012 року;
серія “S”– з 16 листопада 2007 року до 14 грудня 2012 року;
серія “T” – з 16 листопада 2007 року до 15 грудня 2012 року;
серія “U”– з 16 листопада 2007 року до 16 грудня 2012 року;
серія “V” – з 26 червня 2008 року до 11 грудня 2014 року;
серія “W” – з 16 листопада 2007 року до 12 грудня 2014 року;
серія “X” – з 16 листопада 2007 року до 13 грудня 2014 року;
серія “Y” – з 16 листопада 2007 року до 14 грудня 2014 року.

На момент подання документів для реєстрації випуску облігацій, облігації серій “K”, “L”, “M”, “N”, “O”, “P”, “Q”, “R”, “S”,“T”, “U”, “V”, “W”, “X”, “Y” Емітента знаходяться в обігу.

Погашення облігацій здійснюється протягом одного банківського дня:

серія “K” – 07 грудня 2012 року;
серія “L” – 08 грудня 2012 року;
серія “M” – 09 грудня 2012 року;
серія “N” – 10 грудня 2012 року;
серія “O” – 11 грудня 2012 року;
серія “P” – 12 грудня 2012 року;
серія “Q” – 13 грудня 2012 року;
серія “R” – 14 грудня 2012 року;
серія “S” – 15 грудня 2012 року;
серія “T” – 16 грудня 2012 року;
серія “U” – 17 грудня 2012 року;
серія “V” – 12 грудня 2014 року;
серія “W” – 13 грудня 2014 року;
серія “X” – 14 грудня 2014 року;
серія “Y” – 15 грудня 2014 року.

6 серпня 2008 року Емітентом було здійснено випуск звичайних іпотечних облігацій на загальну номінальну вартість 200 млн. гривень, в тому числі:

серія “A” – 30 000 000 (тридцять мільйонів) гривень, Свідоцтво про реєстрацію випуску звичайних іпотечних облігацій ДКЦПФР (реєстраційний № 2/4/08, дата реєстрації 06.08.2008 р., дата видачі 24.09.2008 р.);

серія “B” – 30 000 000 (тридцять мільйонів) гривень, Тимчасове Свідоцтво про реєстрацію випуску звичайних іпотечних облігацій ДКЦПФР (реєстраційний № 3/4/08/Т, дата реєстрації 06.08.2008 р.);

серія “C” – 30 000 000 (тридцять мільйонів) гривень, Тимчасове Свідоцтво про реєстрацію випуску звичайних іпотечних облігацій ДКЦПФР (реєстраційний № 4/4/08/Т, дата реєстрації 06.08.2008 р.);

серія “D” – 30 000 000 (тридцять мільйонів) гривень, Тимчасове Свідоцтво про реєстрацію випуску звичайних іпотечних облігацій ДКЦПФР (реєстраційний № 5/4/08/Т, дата реєстрації 06.08.2008 р.);

серія “E” – 30 000 000 (тридцять мільйонів) гривень, Тимчасове Свідоцтво про реєстрацію випуску звичайних іпотечних облігацій ДКЦПФР (реєстраційний № 6/4/08/Т, дата реєстрації 06.08.2008 р.);

серія “F”– 30 000 000 (тридцять мільйонів) гривень, Тимчасове Свідоцтво про реєстрацію випуску звичайних іпотечних облігацій ДКЦПФР (реєстраційний № 7/4/08/Т, дата реєстрації 06.08.2008 р.);

серія “G” – 20 000 000 (двадцять мільйонів) гривень, Свідоцтво про реєстрацію ДКЦПФР випуску звичайних іпотечних облігацій (реєстраційний № 8/4/08, дата реєстрації 06.08.2008 р., дата видачі 24.09.2008 р.).

Строк обігу звичайних іпотечних облігацій:

серія “A” – з 24 вересня 2008 року до 15 серпня 2011 року;

серія “B” – з дати реєстрації Державною комісією з цінних паперів та фондового ринку звіту про результати розміщення облігацій та отримання свідоцтва про реєстрацію випуску облігацій до 16 серпня 2011 року;

серія “C” – з дати реєстрації Державною комісією з цінних паперів та фондового ринку звіту про результати розміщення облігацій та отримання свідоцтва про реєстрацію випуску облігацій до 17 серпня 2011 року;

серія “D” – з дати реєстрації Державною комісією з цінних паперів та фондового ринку звіту про результати розміщення облігацій та отримання свідоцтва про реєстрацію випуску облігацій до 18 серпня 2011 року;

серія “E” – з дати реєстрації Державною комісією з цінних паперів та фондового ринку звіту про результати розміщення облігацій та отримання свідоцтва про реєстрацію випуску облігацій до 19 серпня 2011 року;

серія “F” – з дати реєстрації Державною комісією з цінних паперів та фондового ринку звіту про результати розміщення облігацій та отримання свідоцтва про реєстрацію випуску облігацій до 20 серпня 2011 року;

серія “G” – з 24 вересня 2008 року до 21 серпня 2011 року;

На момент подання документів для реєстрації випуску облігацій, звичайні іпотечні облігації серій “A”, “G” Емітента знаходяться в обігу.

Погашення звичайних іпотечних облігацій здійснюється протягом одного банківського дня:

серії “A” – 16 серпня 2011 року;

серії “B” – 17 серпня 2011 року;

серії “C” – 18 серпня 2011 року;

серії “D” – 19 серпня 2011 року;

серії “E” – 20 серпня 2011 року;

серії “F” – 21 серпня 2011 року;
серії “G” – 22 серпня 2011 року.

5. Частки у статутному капіталі Емітента, що перебуває у власності членів виконавчих органів Емітента

Члени виконавчого органу частки у статутному капіталі не мають.

6. Перелік осіб, що мають у статутному капіталі емітента частку, що перевищує 10%

Держава в особі Кабінету Міністрів України є єдиним власником Установи.

7. Відомості про депозитарій Емітента

Повна офіційна назва депозитарію: Відкрите акціонерне товариство “Національний депозитарій України”.

Місцезнаходження товариства: 01001, м. Київ, вул. Б.Грінченка, 3.

Код ЄДРПОУ 30370711.

Дозвіл на депозитарну діяльність депозитарію цінних паперів № 823, який виданий ДКЦПФР 19.09.2006 року (Серія АВ, №189650), Р/р 260040131323 в ЗАТ «СБЕРБАНК РОСІЇ» МФО 320627 ІПН 303707126591 Свідоцтво № 39112281, тел./факс: (8-044-279-10-78, 8-044-279-12-49, 8-0440-279-12-13. Адреса електронної пошти operdept@ndu.gov.ua.

8. Дані про відповідальних осіб за інформацію про розміщення цінних паперів

За інформацію про розміщення цінних паперів несуть відповідальність наступні особи:

В.о Голови Правління Установи – Москаленко Сергій Іванович;

Головний бухгалтер Установи – Лисенко Тетяна Анатоліївна.

Організація відповідальна за проведення аудиту Емітента:

Аудиторська компанія-ТОВ «УПК-Аудит Лтд» (код ЄДРПОУ 30674018) внесена до реєстру суб’єктів аудиторської діяльності рішенням Аудиторської палати України від 26.01.2001р. №98, що підтверджено свідоцтвом №2228 (дія свідоцтва подовжена до 15.12.2010р. рішенням АПУ від 15.12.2005р. №156/6). Аудитор внесений до Реєстру аудиторів та аудиторських фірм, які можуть проводити аудиторські перевірки фінансових установ, що здійснюють діяльність на ринку цінних паперів, відповідно до рішення Державної комісії з цінних паперів та фондового ринку від 13.02.2007р. №313, що підтверджено Свідоцтвом №71.

01601 Київ, провулок Музейний,2-в. Тел./факс: (38044) 278-14-42, 278-66-68.

Генеральний директор АК ТОВ «УПК-Аудит Лтд» Козленко В.Г. (сертифікат аудитора серії А № 004111 від 28.01.2000р.).

Директор з аудиту АК ТОВ «УПК-Аудит Лтд» Лавренова Т.І. (сертифікат аудитора серії А № 003255 від 30.10.1997р.).

Аудиторська фірма ЗАТ АФ ”Де Візу” (код ЄДРПОУ 22917414), юридична адреса: 01001, м.Київ, вул.Малопідвальна, 10, оф.4, тел.: (38 044) 270-6880, 270-

5444, факс: (38 044) 270-5145. Свідоцтво про внесення в Реєстр аудиторських фірм та аудиторів, які одноособово надають аудиторські послуги № 1373, видане згідно з рішенням Аудиторської палати України від 26 січня 2001 року, дійсне до 26 січня 2011 року. Аудитор внесений до Реєстру аудиторів та аудиторських фірм, які можуть проводити аудиторські перевірки фінансових установ, що здійснюють діяльність на ринку цінних паперів, відповідно до рішення Державної комісії з цінних паперів та фондового ринку від 27.02.2007р. №439, що підтверджено Свідоцтвом №192.

Голова Правління ЗАТ АФ "Де Візу" Судкова Т.М. (сертифікат аудитора серії А № 006136 виданий Аудиторською палатою України 30.06.2006 р.).

Заступник Голови Правління ЗАТ АФ "Де Візу" Іващенко В.П. (сертифікат аудитора серії А № 002480, виданий Аудиторською палатою України 29.06.1995 р.).

9. Дані щодо бірж або позабіржових торговельно-інформаційних систем, на яких продавались або продаються цінні папери цього Емітента

Відомості про Фондову біржу ПФТС:

Місцезнаходження : Україна, 01133, м. Київ, вул. Щорса 31, 5 поверх, тел. (+380 44) 522-88-08, факс (+380 44) 522-8553. Код за ЄДРПОУ: 21672206.

Ліцензія Державної комісії з цінних паперів та фондового ринку на професійну діяльність на фондовому ринку - діяльність з організації торгівлі на фондовому ринку, серія АВ №376703 видана 19.10.2007, термін дії – до 19.10.2017 року.

10. Дані щодо організаторів торгівлі цінними паперами до лістингу яких включенні облігації емітента

Облігації відсоткові іменні Емітента з додатковим забезпеченням у формі Державної гарантії серій «A», «B», «C», «D», «E», «F», «G», «H», «I», «J» пройшли процедуру лістингу та 30 січня 2008 року включені до Котирувального Списку ПФТС 2 рівня лістингу. Облігації відсоткові іменні Емітента з додатковим забезпеченням у формі Державної гарантії серій «K», «L», «R», «V» пройшли процедуру лістингу та 08 липня 2008 року включені до Котирувального Списку ПФТС 2 рівня лістингу. Звичайні іпотечні облігації Емітента серій «A», «G» пройшли процедуру лістингу та 30 вересня 2008 року включені до Котирувального Списку ПФТС 2 рівня лістингу.

Облігації відсоткові іменні Емітента з додатковим забезпеченням у формі Державної гарантії серій «M», «N», «O», «P», «Q», «S», «T», «U», «W», «X», «Y» пройшли процедуру лістингу та 10 листопада 2008 року включені до Котирувального Списку ПФТС 2 рівня лістингу.

Відомості про Фондову біржу ПФТС:

Місцезнаходження : Україна, 01133, м. Київ, вул. Щорса 31, 5 поверх, тел. (+380 44) 522-88-08, факс (+380 44) 522-8553. Код за ЄДРПОУ: 21672206.

Ліцензія Державної комісії з цінних паперів та фондового ринку на професійну діяльність на фондовому ринку - діяльність з організації торгівлі на фондовому ринку, серія АВ №376703 видана 19.10.2007, термін дії – до 19.10.2017 року.

11. Інформація про організаторів торгівлі, з якими укладено договір на проведення розміщення облігацій

Договори на проведення розміщення облігацій з організаторами торгівлі не укладалися.

Я, В.о. Голови Правління Державної іпотечної установи, Москаленко Сергій Іванович, підтверджую достовірність наведених в цій інформації відомостей.

В.о. Голова Правління _____

Москаленко С.І.

Я, Головний бухгалтер Державної іпотечної установи, Лисенко Тетяна Анатоліївна, підтверджую достовірність наведених в цій інформації відомостей.

Головний бухгалтер _____

Лисенко Т.А.

Я, Заступник Голови правління ЗАТ АФ "Де Візу" Іващенко В.П., підтверджую достовірність фінансових даних, що містяться у цій інформації (в частині підтвердження достовірності даних фінансової звітності Державної іпотечної установи станом на 31.12.2006р.).

Заступник Голови Правління
ЗАТ АФ "Де Візу" _____

Іващенко В.П.

Я, Генеральний директор АК ТОВ *"УПК-Аудит Лтд" Козленко В.Г.*, підтверджую достовірність фінансових даних, що містяться у цій інформації (в частині підтвердження достовірності даних фінансової звітності Державної іпотечної установи станом на 31.12.2007р. та 31.12.2008р.).

Генеральний Директор
АК ТОВ "УПК-Аудит Лтд" _____

Козленко В.Г.

ATTACHMENT 4

Целевые программы в жилищном строительстве

Bundesamt für Bauwesen und Raumordnung

содействие строительству социального жилья с 1950г.

программы федеральных земель дотировались со стороны госбюджета

с 1950г. по 2005г. 9 млн. квартир

6 млн. наёмных квартир

3 млн. частных квартир

BBSR-II1 PGO, 04.03.2009

Bundesamt für Bauwesen und Raumordnung

Содействие жилищному строительству в Германии

Диана Хустер, Федеральный научно-исследовательский институт по развитию строительста, городов и регионов

BBSR-II1 PGO, 04.03.2009

Строительство социального жилья в Германии

Bundesamt für Bauwesen und Raumordnung

	2003	*2004*	*2005*
Число построенных квартир	44.491	36.799	32.698
Общая стоимость в млн. €	6,745	5,269	4,605
Бюджетная помощь в млн. €	1,499	1,482	1,242

Основа данных: Федеральное Статистическое ведомство, 2006.

BBSR-II1 PGO, 04.03.2009

Механизм содействия строительству социального жилья

Bundesamt für Bauwesen und Raumordnung

ссуды с пониженной процентной ставкой

застройщик

⇓

инвестиционные затраты

↷

наёмные квартиры предлагаются по доступным ценам

по направлению жилищного ведомства застройщик сдаёт квартиры лицам с низким доходом в период оплаты ссуд

BBSR-II1 PGO, 04.03.2009

Финансирование жилищного строительства

Bundesamt für Bauwesen und Raumordnung

ипотечное финансирование

- распространённый в Германии вид обеспечения кредита
- вещное обременение участка или квартиры для обеспечения кредита
- право принудительного взыскания участка/квартиры и удовлетворения требований за счёт выручки от продажи с аукциона

BBSR-II1 PGO, 04.03.2009

Финансирование жилищного строительства

Bundesamt für Bauwesen und Raumordnung

стройсберкассы

- замкнутая система накопления средств для строительства
- три фазы: накопление, выделение и возврат кредита
- кредиты предоставляются только вкладчикам
- минимальный вклад: 40-50% договорной суммы
- процентная ставка ниже чем рыночная процентная ставка

BBSR-II1 PGO, 04.03.2009

Ипотеки в Германии

Bundesamt für Bauwesen und Raumordnung

Банк	% ставки 5 лет	% ставки 10 лет	заемный капитал
Берлинская сберкасса	4,82	4,94	80%
Берлинер Фольксбанк	4,88	4,57	60%
Коммерцбанк	4,81	4,67	60%
ПСД Банк	4,28	4,33	60%
СЕБ	4,58	4,58	60%
Вюстенрот	4,33	4,44	60%
БВ Банк Берлин	4,75	4,40	60 %

Данные от 18го марта 2007г.

BBSR-II1 PGO, 04.03.2009

Ипотеки в Германии

Bundesamt für Bauwesen und Raumordnung

Банк	% ставки 5 лет	% ставки 10 лет	заемный капитал
Берлинская сберкасса	4,39	4,59	60%
Берлинер Фольксбанк	4,33	4,31	60%
Постбанк	4,30	4,45	80%
ПСД Банк	4,13	4,23	60%
СЕБ	4,41	4,33	60%
Вюстенрот	4,33	4,44	60%
БВ Банк Берлин	4,27	4,42	80 %

Данные от 12го октября 2006г.

BBSR-II1 PGO, 04.03.2009

KfW-Программа «Энергоэффективное строительство»

Bundesamt für Bauwesen und Raumordnung

Содействие строительству и покупке энергоэффективных жилых домов

Энергоэффективность потверждается экспертизой

- кредит: 100% инвестиционных затрат, до 50.000 € на квартиру

процентная ставка снижается в течении 10 лет за счет федеральных средств

В зависимости от эффективности энергосберегательных мер

BBSR-II1 PGO, 04.03.2009

Программы содействия строительству и санации

Bundesamt für Bauwesen und Raumordnung

- Частные лица: Заявка на предоставление кредита через банк на месте жительства
- Муниципальные образования: прямая заявка в государственный Банк реконструкции (KfW)

Заявка должна ставиться до начала санации!

При проведении мер по санации следует соблюдать „Постановление об экономии энергии“

BBSR-II1 PGO, 04.03.2009

Кто может получить льготные кредиты?

Bundesamt für Bauwesen und Raumordnung

Каждый, кто планирует проводить капремонт или модернизацию жилого дома

- частные лица и общества собственников жилья
- жилищные компании / кооперативы
- муниципальные образования

BBSR-II1 PGO, 04.03.2009

KfW-Программа «Энергоэффективная санация»

Bundesamt für Bauwesen und Raumordnung

Цель: Сокращение выбросов двуокиси углерода и расходов на теплоэнергию

- кредит:
  100% инвестиционных затрат,
  до 75.000 € на квартиру

  Эффициентный дом 70 (EnEV 2007)

- дотация на погашение кредита:
  до 12,5 % инвестиционных затрат

В зависимости от эффективности энергосберегательных мер

BBSR-II1 PGO, 04.03.2009

Объём содействия со стороны государства

Bundesamt für Bauwesen und Raumordnung

	кредит	дотация	кредит и дотация в 2007 г.
Число договоров	20.582	2.791	23.373
Число квартирных единиц	83.345	5.245	88.590
Жилая площадь	7,2 Mio. м²	0,55 Mio. м²	7,75 Mio. м²
Объём кредитов и дотаций	около 1,9 мрд €	около 15 млн €	около 1,9 мрд €
Объём кредита на одну заявку	около 90.400 €	около 5.200 €	

Quelle: KfW (Hrsg.): Gutachten „Effekte des CO2-Gebäudesanierungsprogramms 2007"

BBSR-II1 PGO, 04.03.2009

Содействие мероприятиям

Bundesamt für Bauwesen und Raumordnung

- дополнительная теплоизоляция фасада
- замена окон
- утепление перекрытия подвала
- утепление последнего перекрытия на чердаке
- обновление отопительной установки и трубо проводов,
- обновление вентиляционной установки, при возможности интегрирование систем регенерации тепла

BBSR-II1 PGO, 04.03.2009

Объем комплексного капремонта

I Энергосберегающие мероприятия

Bundesamt für Bauwesen und Raumordnung

- дополнительная теплоизоляция фасада
- замена окон
- утепление перекрытия подвала
- утепление последнего перекрытия на чердаке
- обновление отопительной установки и трубо проводов,
- обновление установки водопроводных труб
- обновление вентиляционной установки, при возможности интегрирование систем регенерации тепла

BBSR-II1 PGO, 04.03.2009

Стоимость санации панельных домов в Восточной Германии

Bundesamt für Bauwesen und Raumordnung

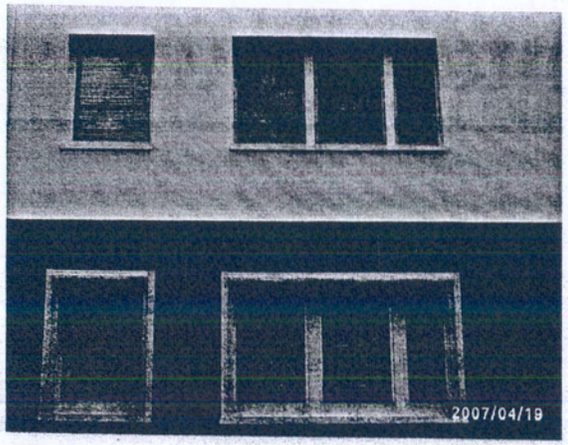
1 Простая санация	санация бетона, холодная и тёплая вода, системы вывода дыма, лестничные площадки	100 - 200 € / m²
2 Только энергосберегающая санация	отопление, тёплая вода, окна и теплоизоляция	200 – 300 € / m²
3 Полная санация	1+2	300 – 400 € / m²
4 Полная санация + дополнительные меры	балконы и лифты	400 – 500 € / m²
5 меры, повышающие привлекательность для квартиросъёмщиков	перепланировка квартир, терасы, двери, встроенные кухни	50 – 150 € / m²
6 благоустройство прилегающих территорий	соответственно состоянию	25 – 100 € / m²

Основа данных: Protz, R.: Kompetenzzentrum Großsiedlungen e.V., Berlin, 2007.

BBSR-II1 PGO, 04.03.2009

Новые оконные блоки в санированном панельном доме

Bundesamt
für Bauwesen und
Raumordnung



II Необходимые мероприятия, не связанные с экономией энергии

Bundesamt
für Bauwesen und
Raumordnung

- обновление кровли
- восстановление балконов / лоджий
- модернизация входа в дом
- восстановление лестниц и лестничных площадок
- обновление электрооборудования
- обновление санитарно-тех. оборудования
- оснащение кухны и ванной кафелем
- обновление входных дверей в квартиры

Объём содействия со стороны государства

Bundesamt für Bauwesen und Raumordnung

Программа санации с целью сокращения выбросов двуокиси углерода

2009 1,5 мрд €

2010 1,4 мрд €

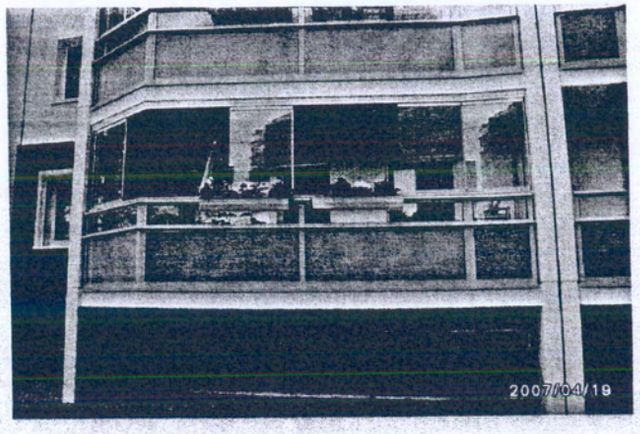
2011 1,4 мрд €

- повышение объема в рамках антикризисных мер
- инвестиции и заказы в объеме 15 мрд € в год
- 1 мрд € создает или сохраняет 20.000 -25.000 рабочих мест

BBSR-II1 PGO, 04.03.2009

Новые, пристроенные лоджии перед санированным домом панельной застройки

Bundesamt für Bauwesen und Raumordnung



BBSR-II1 PGO, 04.03.2009

Программа „Жильё без барьеров“

Bundesamt für Bauwesen und Raumordnung

- модернизация и перепланировка квартир
- с 2009г. ежегодно 80 млн € для льготных кредитов
- срок предоставления кредита до 30 лет
  Зафиксированная процентная ставка на 10 лет

BBSR-II1 PGO, 04.03.2009

Конкурс „Кварталы панельной застройки“

Bundesamt für Bauwesen und Raumordnung

- потенциал экономии теплоэнергии в несанированных зданиях до 50% = 100 кв в час м²/год
- квартира 70 м² (6ct / кв в час) - 420 € экономленной теплоэнергии в год
- содействие разработке концепций по развитию городских кварталов

BBSR-II1 PGO, 04.03.2009

Рекомендации на фоне немецкого опыта

Bundesamt für Bauwesen und Raumordnung

- субъект содействия: собственники и застройщики
- простые и целенаправленные программы
- небольшое число условий содействия
- полный учёт энергосберегающих мер

BBSR-II1 PGO, 04.03.2009

Программа „Жильё без барьеров“

Bundesamt für Bauwesen und Raumordnung

Кредит на 30 лет

	% ставки номинально	% ставки эффективно
A	3,35	3,92
B	3,55	4,13
C	3,70	4,29

BBSR-II1 PGO, 04.03.2009
Quelle:IBB – Seniorengerechtes Wohnen. Stand: 16.01.2009

Содействие городскому строительству

Bundesamt für Bauwesen und Raumordnung

<u>Градостроительные программы</u>

- перестройка городов на Западе
- перестройка городов на Востоке
- социальный город
- охрана городских памятников
- меры по санации и развития городов
- активные городские кварталы

BBSR-II1 PGO, 04.03.2009

Содействие городскому строительству

Bundesamt für Bauwesen und Raumordnung

- урегулировано в Строительном кодексе ФРГ
- составная часть Национальной политики городского развития
- источники финансирования: федеральный, земельные и муниципальные бюджеты

в 2008 г. 505 млн. евро из федеральных средств

BBSR-II1 PGO, 04.03.2009

Содействие инфраструктурным инвестициям

Bundesamt für Bauwesen und Raumordnung

программа в объеме 13,3 мрд €

- 2/3 средства из федерального бюджета
- 6,5 мрд € федеральных средств инвестиции в образовательную инфраструктуру
- 3,5 мрд € федеральных средств инвестиции в социальную и культурную инфраструктуру

BBSR-II1 PGO, 04.03.2009

Содействие Всемирному культурному наследию

Bundesamt für Bauwesen und Raumordnung

инвестиции в национальные места Всемирного культурного наследия

- 2009-2013: 150 млн €
- программа для муниципалитетов
- 2/3 средства из федерального бюджета

BBSR-II1 PGO, 04.03.2009

Рекомендации Лейпцигской хартии

Bundesamt für Bauwesen und Raumordnung

II уделить особое внимание городским кварталам, оказавшимся в невыгодном положении

- стратегии повышения привлекательности квартала
- укрепление местной экономики и местного рынка труда
- активная политика образования и профподготовки
- развитие городского транспорта с доступными тарифами

BBSR-II1 PGO, 04.03.2009

Рекомендации Лейпцигской хартии

Bundesamt für Bauwesen und Raumordnung

I претворять в жизнь принципы политики интегрированного городского развития

- создание привлекательных городских зон
- модернизация сетей инфраструктуры и повышение энергоэффективности
- активная политика инновации и образования

BBSR-II1 PGO, 04.03.2009

Немецкий банк Hypo Real Estate

Bundesamt für Bauwesen und Raumordnung

- *сильно пострадал от последствий финансового кризиса*
- *с октября банк получил 102 мрд €, из них 87 мрд госгараний*
- *скоро получит еще 20 мрд €*

- *Законопроект о национализации банка*

BBSR-II1 PGO, 04.03.2009

Bundesamt für Bauwesen und Raumordnung

Финансовый кризис - возможное влияние на немецкий рынок недвижимости

BBSR-II1 PGO, 04.03.2009

Тезисы

Bundesamt
für Bauwesen und
Raumordnung

- банки повысят процентные ставки при финансировании жилищного строительства в обозримом объеме
- покупка с краткосрочным заемным капиталом жилых кварталов и продажа их через некоторое время с прибылью уже не будет реализоваться бизнес-моделью иностранных инвесторов
- существенно будут снижаться цены на портфолии квартир - объем портфолий будет понижаться

BBSR-II1 PGO, 04.03.2009

Тезисы

Bundesamt
für Bauwesen und
Raumordnung

- резкий спад цен на недвижимость не очень вероятен

  сдержанная практика при выдаче ипотечных кредитов и стабильное развитие цен на невдижимость за последние 10лет
- финансирование жилищного строительства и капиталовложение в недвижимость со стороны банков обеспечены
- низкая доля собственного капитала при приобретении объектов малоэтажной застройки приведет к завышенным надбавкам за риск

BBSR-II1 PGO, 04.03.2009

Тезисы

Bundesamt
für Bauwesen und
Raumordnung

- *сдержание банков относительно финансирования строительно-инвестиционных фирм (застройщиков) приведет к сокращению объемов нового строительства*
- *капремонт и модернизация жилых домов будут откладываться на определенное время*
- *слабая коньюнктура приведет к небольшому снижению цен при покупке жилья*

BBSR-II1 PGO, 04.03.2009

ATTACHMENT 5

CABINET OF MINISTERS OF UKRAINE

RESOLUTION
 # 316-p dated 25 March 2009
Kyiv

On Approval of the Concept for Development
of the Domestic Market of Government Securities
of Ukraine for 2009-2013

1. To approve the attached Concept for Development of the Domestic Market of Government Securities of Ukraine for 2009-2013 (hereinafter – the Concept).
2. To approve the attached top-priority measures to ensure development of the domestic market of government securities of Ukraine for 2009.
   The Ministry of Finance with participation of the Ministry of Economy, Ministry of Justice, interested state power bodies and the National Bank shall develop annually and approve the plans for fulfillment of measures aimed at implementation of the Concept.
3. The Ministry of Finance shall annually inform the Cabinet of Ministers of Ukraine on the course of implementation of the Concept.

Yu. Tymoshenko
Prime-Minister of Ukraine
Ind.34

APPROVED
by the Resolution of the Cabinet of Ministers
of Ukraine # 316-p dated 25 March 2009

CONCEPT
for Development of the Domestic Market
of Government Securities of Ukraine for 2009–2013

This Concept is aimed at satisfaction of urgent needs in reforming of the primary market of government securities in Ukraine which are determined, first of all, by high cost of public borrowing in the domestic market compared to cost of borrowing in foreign markets.

In recent years, advantages of lower interest rates on borrowings in foreign capital markets have been leveled by the currency risks which are embodied in growth of exchange rate of foreign currencies. Moreover, lack of the definite strategy in choice of the currency of borrowings complicates significantly implementation of the monetary policy by the National Bank of Ukraine.

Proceeding from the fact that an objective of public debt management is lowering of cost of borrowing with minimization of risks, and taking into account the current situation, priority of public debt management policy is to reorganize the primary and secondary government securities markets in order to lower cost of borrowing in the domestic capital market and to reduce risks of the government debt in general.

Analysis of the Problem Roots and Substantiation of Necessity to Resolve the Problem

As of 31 December 2007, public debt of Ukraine was UAH 71.3 billion, equivalent of USD 14.12 billion, of which: debt in national currency – UAH 12.6 billion (17.65%), debt in foreign currency – UAH 58.7 billion (82.35%).

As of 31 December 2008, public debt of Ukraine was UAH 130.56 billion, equivalent of USD 16.96 billion, of which: debt in national currency – UAH 36.96 billion (28.31%), debt in foreign currency – UAH 93.6 billion (71.69%).

This structure of public debt is the result of its accumulation in foreign currencies after the policy of public debt management was oriented on foreign borrowings. The indicated policy was carried out after 1998 crisis when forced making of short-term domestic borrowings at high interest rates lead to the necessity of public debt restructuring. Moreover, the reasons for the government to make

borrowings predominantly in foreign currency was high cost of borrowing in the domestic market.

Weighted Average Yield on Government Securities

%

Year	Domestic government bonds	External government bonds
2003	9.73	7.65
2004	11.23	6.17
2005	7.23	4.95
2006	9.26	5.07
2007	8.92	6.16
2008	11.51	Not issued

The reason of high cost of domestic government borrowings was in low liquidity of government securities. Insufficient demand for them by the domestic investors and traders, slow trading in the secondary market testify to low interest of the domestic financial institutions in mid-term investment of financial resources in securities with low level of current liquidity. Moreover, capacity of the domestic capital market is insufficient for satisfaction of needs in financing of the state budget, as a result of which the plan of government domestic borrowings was not fulfilled in 2004-2008.

Domestic Government Borrowings for Financing of the State Budget (Without Domestic Government Bond Issues Made According to Separate Decisions)

Year	Plan, UAH billion	Fact, UAH billion	Difference, UAH billion	Non-fulfillment of plan, %
2004	4.5	4.13	-0.37	8.22
2005	6.24	3.97	-2.27	36.38
2006	4.55	1.58	-2.97	65.27
2007	3.83	3.57	-0.26	6.79
2008	7.77	3.74	-4.03	51.87

Under such conditions, the Cabinet of Ministers of Ukraine was forced to make borrowings in foreign currency.

At the same time, external government borrowings are accompanied by significant currency risks. Maintaining a stable exchange rate of the national currency with relatively low interest rates on borrowings in foreign currencies ensures lower total expenses of the government. In case of lowering of the national currency

exchange with respect to currency of the borrowing, cost of liability keeps growing during validity of such liabilities. For instance, 32% (approximately UAH 1.3 billion) of all payments on 2000 external government bonds (redemption in September 2007, 10% coupon) were made due to growing Euro exchange rate during the whole period of circulation of external government bonds.

In the second six months of 2008, currency risks of the Ukrainian public debt have reached an intolerably high level.

If growth of volume of public debt liabilities (in Hryvna equivalent) in 2007 due to appreciation of foreign currencies was 23.13%, in 2003 it was 52.98%, UAH 1.15 billion and 31.4 billion, respectively. Interest payments on debt denominated in foreign currencies have increased in the same proportion.

At that, expenses of the National Bank connected with restricted supply of excess money stock in economy which appears in connection with financing of the budget deficit from foreign borrowings, and expenses connected with replenishment of currency reserves, increase the total cost of borrowings in foreign currencies.

In addition to currency risks, also interest rate risks and risks of public debt refinancing connected with the current liquidity crisis in the world financial markets increase too. Refinancing risks are determinative for making decisions on government borrowings in the conditions of the financial crisis because the results of their impact jeopardize fulfillment by the government of its liabilities and functions, stability and economic independence of the state.

Objective and Key Tasks

Objective of this Concept is creation of fundamentals and conditions to ensure development of the domestic market of government securities in 2009-2013.

Objective of development of the domestic government securities market of Ukraine is to lower cost of public borrowing with minimization of risks, creation of conditions for activation of the secondary market of government securities and development of a liquid and well-structured financial market of Ukraine in general.

Developing the domestic government securities market is also the first step to achieve an effective management of the government debt with due regard to the world experience. In the future, it means drafting and implementing a middle-term government debt management strategy based on a cost-and-risk analysis and is intended to increase the portion of domestic government debt in the overall amount of sovereign debt as well as to satisfy the needs of developing the

domestic market of debt obligations.

Besides, on the overall economic level, further fields for developing public debt management are:

increasing the effectiveness of managing government funds by performing transactions in government securities on a regular basis;

building a government securities yield curve as a securities market benchmark;

encouraging the development of the financial market to have more operations in the secondary market of government securities;

helping to increase the investor base, in particular, developing the institutional investors.

The main tasks of the Concept are:

ensuring the possibility of raising the necessary funds for the state to fulfill its functions and making payments for the account of public debt;

financing the needs of the state with a minimum possible level of expenses in middle-term, provided the risks are minimized;

streamlining the structure of public debt to increase the proportion of government borrowing in the domestic market by types of interest rates and borrowing terms.

Ways and means to solve the problem

To ensure the development of the domestic government securities market, the following measures are required:

1) improving the offer of government securities through:

carrying out regular placements of government securities by maturities in volumes that would ensure the fulfillment of the government borrowing plan established by the law on state budget for the relevant year;

implementing the mechanism of market pricing when placing government securities to take account of interests of the entire investor community;

issuing domestic government bonds specifically for investment of pension fund assets formed within the second pillar pension system with the yield linked to the level of inflation.

2) identifying public debt risks and managing those through:

developing a methodological and normative risk management base;

implementing risk management internal controls;
organizing transactions in public debt within the limits of borrowed funds including swaps and early repurchase of government debentures to save budget funds and minimize the interest rate risk.

3) increasing the liquidity of government securities through:

involving securities traders in listing government securities on the secondary market and supporting the exchange quotations of such securities;

drafting normative acts that would help using government debentures as a liquidity management tool;

placing free funds in the unified treasury account with financial institutions on a competitive basis upon condition of a temporary purchase of government securities with future replenishing these funds by the end of the year;

4) improving the image of the state as the issuer of government securities by increasing transparency and predictability of government borrowing through:

approving the annual schedule of primary placement of government securities and publicizing issue prospectuses of government securities in advance;

listing and circulating government securities at stock exchanges;

implementing modern competitive tender procedures that would allow placing government securities in one stage;

implementing generally accepted international procedures and formulas for accruing interest on government obligations to encourage demand for those;

disseminating standardized data required for the efficient functioning of the government securities market such as daily quotations of securities in the domestic market, government securities yield curve, etc.

Expected results

Implementing the concept would encourage the development of a fully-fledged and liquid domestic government securities market that would help:

- decrease the costs of government borrowing,
- reduce risks,
- improve the image of the state as the issuer of government securities that, in the long run, together with the policy to extend maturities of debentures, would broaden possibilities of their use as an investment instrument, in particular, for non-state pension insurance.

The development of the domestic government securities market could have the following positive consequences for the entire financial sector and the economy of Ukraine:

business entities' using government securities to insure their risks with the view to minimizing their costs;

carrying out regular placements of government securities with different maturities, which would help increase their liquidity and develop the domestic stock market. This would allow balancing demand and supply that is, avoiding a surplus supply that, together with placing unified treasury account funds upon condition of a temporary purchase of government securities, would significantly lessen the debt burden on the state budget;

sustaining lower foreign exchange risks in the financial sector and directly for borrowers. The banking sector needs its internal instruments to manage liquidity and finance portfolios of long-term domestic government securities with the help of transactions to temporarily purchase the said securities with the funds of the unified treasury account. This would lessen the negative impact of foreign exchange risks on the banking sector and make it easier for other borrowers to issue securities in the domestic market;

creating additional opportunities for using government securities by the National Bank with the view to conducting government monetary policy.

APPROVED
by Decree of the Cabinet of Ministers of Ukraine
No. 316-p dated 25 March 2009

Top Priority Measures to Ensure the Development of the Domestic Government Securities Market in 2009

Measure	Term	**Executive in charge**
1. Approving the annual schedule of primary placement of government securities for 2010	December	MinFin
2. Publicizing issue prospectuses of government securities	2 weeks before issuance	-"-
3. Regular placements of a broad range of domestic government bonds by maturities in amounts that would ensure the fulfillment of the government borrowing plan stipulated by the law on state budget for the relevant year.	During the year	-"-
4. Performing public debt transactions within the limits of the borrowed funds, including exchange, early redemption and temporary purchase of government securities	-"-	-"-
5. Developing the methodological and normative and legislative base for managing government debt risks	December	-"-
6. Developing the relevant methodological and normative and legislative base to implement the primary dealer (securities trader) pool	-"-	-"-
7. The development and incorporation to the MinFin forecast of indicators of the consolidated budget by the Ministry of Economy broken down by major types of income, expenditures and financing for the planning year and the following three years of the middle-term public debt management program, which should include the following target indicators: public debt to GDP ratio; average weighted public debt maturity; relation of the amount of loans in the national currency to that in the foreign currency; relation of the amount of borrowing at a fixed interest rate to that at a floating interest rate; currency structure of the public debt.	Pursuant to the schedule of preparing the draft law on state budget	MinFin Ministry of Economy

ATTACHMENT 6

CABINET OF MINISTERS OF UKRAINE

DECREE

dated _____ 2008 No. ___

Kyiv

On Approving the Procedure for Purchase of Domestic Government Bonds Simultaneously Assuming an Obligation to Sell Them

Pursuant to Article 18 of the Law of Ukraine "On State Budget of Ukraine for 2009" the Cabinet of Ministers hereby **decrees**:

To approve the attached Procedure for Purchase of Domestic Government Bonds Simultaneously Assuming an Obligation to Sell Them.

Prime-Minister of Ukraine **Yu. TYMOSHENKO**

APPROVED
by the Decree of the Cabinet of Ministers of Ukraine
dated _____ 2008 No. ___

PROCEDURE
for Purchase of Domestic Government Bonds Simultaneously Assuming an Obligation to Sell Them

1. This Procedure shall determine the mechanism for purchase of domestic government bonds (hereinafter - the bonds) in 2009 by the Ministry of Finance from funds of the Single Treasury Account (hereinafter - the single account) simultaneously assuming an obligation to sell them secured by pledge of these

bonds with further repayment of funds of the Single Treasury Account until the year end.

2. The terms used in this Procedure shall have the following meaning:

Purchase agreement with a simultaneous obligation to sale (hereinafter - the agreement) shall mean the agreement under which bonds are purchased from funds of the Single Treasury Account simultaneously assuming an obligation to sell them secured by pledge of these bonds pursuant to the pledge agreement.

Counteragent shall mean a legal entity holding and/or dealing with the bonds, with whom the Ministry of Finance enters into agreements.

Agreement rate shall mean an annual rate of return corresponding with the yield on depositing the amount of purchase during the term of agreement and shall be calculated as the difference between the amount of purchased and sold government bonds increased to the amount of interests accrued on the bonds which shall be the subject of agreement and shall be repaid during the term of agreement.

Term of agreement shall mean the term between purchase and sale date under the agreement.

3. The Ministry of Finance shall draft template agreements and pledge agreements and publicize them by posting on its official web-site.

4. The agreement shall be concluded within the margins and terms established by the Ministry of Finance in coordination with the National Bank factoring in the Single Treasury Account balance.

5. The agreement shall expire no later than December 25 of the year of its conclusion.

6. The Ministry of Finance in the beginning of the quarter shall approve and publicize the plan-schedule of bonds purchase simultaneously assuming an obligation to sell them (hereinafter - the purchase) indicating the relevant amounts which could be adjusted based on the decision of the Minister of Finance.

7. The Ministry of Finance shall decide on purchase based on the analysis of the government debt payments schedule, situation in the government securities market, information of the State Treasury on condition of the single account, operating information on fulfillment of the state budget as well as taking into account the situation in the monetary and credit market.

8. When deciding on purchase, the Ministry of Finance shall determine:

Overall purchase volume,

Amount of purchased lots,

Bonds of what issue shall be purchased in lots,

Number of bonds purchased on every lot,

Term of agreements.

The amount of lots must be multiple of UAH 5 million.

The issue of bonds for purchase shall be chosen based primarily on the shortest maturities, at that the bonds must not mature before the date when the Ministry of Finance sells them.

The number of bonds purchased on every lot shall be calculated by dividing the amount of purchase increased to the amount of collateral by discount value of one bond at the rate of last placement with the closest maturity to that of bonds which shall be the subject of agreement. If the quotient is not an even number, it shall be rounded up.

Amount of sale shall equal the amount of purchase increased to the amount of return on deposit at the rate specified in the purchase agreement for the term of agreement factoring in the amount of interests accrued on bonds which shall be the subject of agreement and shall be paid during the term of agreement.

Amount of collateral shall be the amount calculated based on the amount of purchase depending on the term of agreement at the annual rate which equals Kievprime rate on deposits with closest term compared to the term of agreement. If Kievprime rate is not available, the rate shall be determined by the Ministry of Finance factoring in the necessity to minimize losses incurred as a result of selling the bonds at market if the counteragent fails to fulfill its obligations under the agreement.

The term of agreements shall be multiple of a week.

9. The notice on holding auctions to determine the counteragents shall be publicized on the official web-site of the Ministry of Finance and stock exchanges which hold auctions no later than three days prior to the auction date.

The notice shall contain the following:

date and time of auction;

term and time for filing tender bids;

amount of purchase, information on bonds and date of compulsory sale of bonds;

other information.

10. The Ministry of Finance shall hold auctions to determine the counteragents at the stock exchanges having the rules registered with the SSMSC, which regulate the process of entering into purchase agreements simultaneously assuming an obligation to sell the bonds (REPO).

11. The Ministry of Finance shall establish the minimum auction agreement rates factoring in the costs on bonds maintenance.

Based on the auction results, the winner shall be the participant who proposed the highest agreement rate on a certain lot which can not be lower than minimum rate. The bids of participants with the same agreement rate shall be satisfied on a proportional basis.

The auction winners shall sign and transfer to the Ministry of Finance the agreement as well as the pledge agreement in two copies pursuant to template agreements publicized by the Ministry of Finance no later than one day after the auction.

12. The Ministry of Finance during one day shall check and sign the relevant agreements as well as send the order on funds transfer to the State Treasury.

One copy of every agreement shall be given to the counteragent.

13. The State Treasury based on the Decree of the Ministry of Finance shall transfer funds from the Single Treasury Account to the counteragent in the established procedure and account for the above transaction in the state budget fulfillment report.

14. No later than the day following funds transfer by the State Treasury, the counteragent shall transfer bonds on the MinFin's account at the National Bank acting as depository of government securities on a "delivery against payment" basis.

Based on the effected transactions, the National Bank shall provide the Ministry of Finance with a note certifying that the transactions with government securities were effected.

15. At the day of compulsory sale of bonds by the Ministry of Finance, the counteragent shall transfer funds in the procedure established by the legislation.

16. No later than next day after transfer of funds by the counteragent, the Ministry of Finance shall transfer funds on the counteragent's account at the National Bank acting as depository of government securities on a "delivery against payment" basis.

17. Execution of the agreement shall be registered in the state budget fulfillment report in the section "Financing of Current Transactions" pursuant to the orders of the Ministry of Finance.

18. If the counteragent fails to fulfill his obligations under the agreement, the bonds shall be liable to early redemption.

19. Results of bonds transactions shall be reflected based on the orders of the Ministry of Finance in the expenditure budget of the general state budget fund as government debt servicing expenditures signed plus (minus).

20. Early redemption of bonds shall be reflected in the state budget fulfillment report in the section "Financing of Debt Transactions" pursuant to the orders of the Ministry of Finance.

ATTACHMENT 7

Draft

CABINET OF MINISTERS OF UKRAINE
DECREE
of _____ 200__ No. ____
Kyiv
On Primary Dealers of Government Securities

To improve the functioning of the government securities market of Ukraine and its further development pursuant to Decree of the President of Ukraine of 24 November 2005 No. 1648 "On Resolution of the National Security and Defense Council of Ukraine "On Measures to Improve the Investment Climate in Ukraine" and of 28 October 2005 "On Measures to Assert Guarantees and Enhance the Effectiveness of Protecting Ownership in Ukraine" and performing obligations under the Memorandum on Economic and Financial Policies with the IMF of 31 October 2008, the Cabinet of Ministers of Ukraine hereby **DECREES**:

1. The Ministry of Finance of Ukraine shall effect domestic government borrowings by holding regular auctions announcing minimum amounts of borrowing at each auction (the "auctions") (at least three days) in advance. Information about amounts, the total amount, placement or reopening interest rate (the "placement") shall be published by the Ministry of Finance no later than two working days after the relevant auction.

2. To ensure liquidity of domestic government bonds (the "government bonds"), the Ministry of Finance may order services to support bilateral quotations of government bonds. Contractors of such services (the "primary dealers") may have an exclusive or preemptive right to purchase government bonds at an auction.

3. The Ministry of Finance pursuant to this Decree shall select primary dealers (no more than sixteen) amongst banks having a license to conduct a professional activity in the stock market – a securities trading activity - with paid-up charter capital equivalent to at least 10 million euro and enter into relevant agreements (the "agreements") with those.

4. In an agreement with primary dealers a possibility is stipulated of its termination in case of non-fulfillment by primary dealers of assumed obligations pursuant to the concluded agreements regarding:

- Submission of proposals on purchase of government bonds at all auctions;
- Ensuring repurchase of at least 3% of government bonds of the total amount of their placement during each quarter and the entire term of the agreement based on competitive bids;
- Ensuring permanent offers (each working day) to other primary dealers of buying and selling all issues of government bonds introduced to circulation after entering into an agreement with the Ministry of Finance on the exchange in amounts that, at the beginning of trading, is at least UAH 1 million at par;
- Providing the Ministry of Finance with stipulated information on government bonds trading.

Besides, the agreement stipulates a possibility of its termination with two primary dealers that, based on results of the budget year, have the smallest amounts of purchased government bonds upon placement and on other grounds.

5. The Ministry of Finance shall evaluate the performance of agreements by primary dealers and, in case of their non-fulfillment of obligations or the worst indicators of government bonds repurchase, shall terminate the agreements and enter into other agreements with other banks selected on a competitive basis that have the largest amounts of government bonds purchase and sale agreements in the prior budget year.

6. Primary dealers shall be granted an exclusive right to purchase government bonds at the auction in case of concluding six and more agreements.

An exclusive right of a primary dealer means that only primary dealers shall have access to auctions.

9. Control over fulfillment of this Decree shall be charged with First Vice Prime Minister of Ukraine A.V. Turchynov.

Prime Minister of Ukraine **Yu. Tymoshenko**

ATTACHMENT 8

On approval of the Procedure for Selection of Primary Dealers.

According to the Resolution of the Cabinet of Ministers of Ukraine # _____ dated _____ 2009 "On Primary Dealers of Government Securities"

I hereby **O R D E R**:

1. To approve the Procedure for Tender Selection of Primary Dealers of Government Securities.

2. To charge Deputy Minister with control over fulfillment of this Order.

Minister

APPROVED
Order of the Ministry of Finance
of Ukraine # _____
dated _____

Procedure for Selection of Primary Dealers of Government Securities

I. General Provisions

1. This Procedure (hereby – the Procedure) shall regulate tender selection by the Ministry of Finance of Ukraine (hereinafter – the tender) of primary dealers, conclusion with them of the contracts on support of the government securities market (hereinafter – the contracts), assessment of fulfillment of the contracts by primary dealers, termination of the contracts in case of non-fulfillment (improper fulfillment) by the primary dealers of liabilities, their worst indicators on the volume of government bond redemption.

2. Selection of primary dealers shall be organized and conducted by the Government Debt Department.

3. Not later than one month after the date of this Order, the Department shall ensure publicizing on Minfin official web-site and web-site of the National Bank of Ukraine of a notice on conducting selection.

The notice shall contain:

- Proposal to submit bids for conclusion of the contract in a sealed envelope, with mentioning of the date and time of their submission and invitation for opening of the bids with mentioning of the date, time and place of this opening.
- List of data which should be mentioned in the bids, draft contract (Appendix 1 to the Procedure).

4. Time of tender shall be appointed by the Department on the date which is not earlier than 2 months from the day of making the notice public.

5. In the bids for conclusion of the contract, participants shall be offered to mention the following data:

- full name of a legal entity which submits the bid:
- last name, first name and patronymic of an official who concludes the contract, and the ground on which he acts;
- last name, first name and patronymic of an official who will be present at opening of the bids;
- type of main activity;
- legal address;
- EDRPOU code;
- requisites of the banking and depository accounts for government bonds and settlements on them, volume of government bonds purchased at the primary auctions in the last two years;

and to attach the contract signed by the participant.

6. The Department shall organize access of the persons indicated in the bids to the place of bid opening.

7. Bid opening shall take place in presence of at least three employees of the Department, one of which shall be appointed the tender secretary by the Director of the Department.

8. On request of those present at the bid opening, integrity of seals on the bids shall be checked before opening.

9. The following shall be announced when the bid is opened:
legal entity which submitted it;
amount of paid statutory capital;
volume of government bonds purchased at the primary auctions in the last two years.

10. After the end of announcement of all received bids, data on the banks mentioned in item 11 shall be included in the tender minutes upon the condition that paid statutory capital complies with the requirements established by the Cabinet of Ministers of Ukraine. At that, participants with the largest volume of government bonds purchased at the primary auctions in the last two years shall be entered in the minutes prior to others. Should these volumes be equal, participants with the largest paid capital shall be entered first. The minutes shall be signed by employees of the Department present at the tender.

11. Not later than three days after the tender, the Government Debt Department shall submit the contracts with the first 16 (sixteen) participants for the Minister's signature. Should the number of participants who comply with the requirements established by the Cabinet of Ministers of Ukraine be less than 6 (six), the contracts shall be signed a discrepancy report which envisages enactment of the contract in case of a suspensive condition – when the number of banks which concluded the contract on support of the government securities market reaches six.

12. Selection of primary dealers shall be conducted quarterly until the number of banks which concluded the contract on support of the government securities market reaches 16.

13. Within three days after conclusion of the contract, the Government Debt Department shall send one copy of NBU contract.

14. During validity of the concluded agreements, the Government Debt Department quarterly assesses rendering of services on support of the market according to criteria of the volumes of purchase of government bonds in the primary and secondary market, compiles the rating list based on the results, and publishes it on Minfin's web-site, every year, shall submit to the Minister proposals on termination of the contracts with two dealers having the worst rating, and on conclusion of contracts with the banks which comply with the requirements established by the Cabinet of Ministers of Ukraine, and have the largest volumes of purchase and sale of government bonds in the secondary market.

15. The Government Debt Department shall analyze and generalize information on circulation of government bonds in the market, and if it is necessary to introduce amendments to the contracts shall draft these amendments and offer simultaneously to all primary dealers to accept them.

Appendix: Standard contract on support of the government bond market

Director of the Government Debt Department O.M. Bashynska

ATTACHMENT 9

AGREEMENT
ON SUPPORTING GOVERNMENT BOND MARKET

City of Kyiv "___" _____ 2009

Ministry of Finance of Ukraine represented by _____, acting pursuant to _____ hereinafter referred to as "**Minfin,**" on one side and _____ "_____", represented by _____, acting pursuant to _____ hereinafter referred to as the "**Dealer**"**,** on the other side, hereinafter together referred to as the "Parties" and, individually, as the "Party," with due regard to provisions of Decree of the Cabinet of Ministers of Ukraine of _____ No.___ "On Primary Dealers," have entered into the present agreement, the "Agreement," on the following:

Article 1. **SUBJECT OF AGREEMENT**

1.1. The Dealer shall support the domestic government bond market (the "Government Bonds") that include providing bilateral quotation services and purchasing government bonds upon placement, and the Minfin shall provide the Dealer with an exclusive right to purchase Government Bonds at auctions to place Government Bonds (the "Auctions") in accordance with the procedure and the terms stipulated by the Agreement.

Article 2. **RIGHTS AND OBLIGATIONS OF THE PARTIES**

2.1. The Dealer undertakes:

2.1.1. To provide services to support continuous bilateral quotations of Government Bonds by continuously (each working day) ensuring demand to other primary dealers for purchase and sale of all Government Bond issues introduced into circulation after entering into the Agreement with the Ministry of Finance through stock exchanges in amounts that, at opening, is at least UAH 1 million at par for each issue;

2.1.2. To submit competitive bids at all placements of government bonds;

2.1.3. To ensure purchase upon placement of government bonds in the amount at least 3% of the total amount of their placement through competitive bids during each quarter;

2.1.4. To ensure circulation of Government Bonds in the secondary market in the amount at least 3% of the total amount during each quarter;

2.1.5. To provide the Ministry of Finance with information in accordance with the list and within the terms specified in Annex 1;

2.1.6. To indicate, in the case of legal entities, their full names and EDRPOU codes, for individuals, their passport information when entering into commission agreements;

2.1.7. Not to enter into written or verbal agreements with other primary dealers regarding prices or yields of Government Bonds purchased at auctions;

2.1.8. Not to hold, as of any date, more than 30% of outstanding Government Bonds of some issue at par;

2.1.9. To provide the Minfin with information about changing legal form, legal or actual address within a five-day term since the occurrence of such change.

2.1.10. Not to assign its rights hereunder to a third party.

2.1.11. To purchase and sell Government Bonds only at stock exchanges.

2.2. The Minfin undertakes:

2.2.1. To satisfy exclusively Dealer's bids together with other Primary Dealers, with a total of Primary Dealers being from six and more;

2.2.2. To satisfy only Dealer's bids together with other Primary Dealers, if a total of Primary Dealers is twelve and more (granting an exclusive right).

2.2.3. To take into consideration Dealer's proposals together with other Primary Dealers when determining issues to be placed at a regular Auction.

2.2.4. Not to disclose information obtained from the Dealer hereunder.

2.2.5. To ensure not using the name "Primary Dealer" by banks that have not entered into an agreement to support government bond market.

2.2.6. To post the list of Primary Dealers on its official website.

2.2.7. To hold regular auctions announcing (at least three days) in advance the minimum amounts of placement at each Auction.

2.2.8. To publish information about amounts and the coupon rate no later than two working days after holding the relevant Auction.

Article 3. **PROCEDURE FOR TERMINATING THE AGREEMENT**

3.1. If a Party does not fulfill obligations hereunder, the Agreement may be terminated upon demand of the other Party.

3.2. The Minfin shall be entitled to unilaterally terminate the Agreement if:

3.2.1. the amount of purchased Government Bonds by the Dealer, according to Minfin assessment based on year-end results is one of the two lowest amounts among Primary Dealers;

3.2.2. the Dealer has submitted false information in its application to enter into the agreement;

3.2.3. the Dealer has refused to introduce changes obligatory for all Primary Dealers to the agreement on supporting the government bond market.

Article 4. **RESPONSIBILITY OF THE PARTIES**

4.1. In case of non-fulfillment or improper fulfillment of its obligations hereunder, the Parties shall bear responsibility stipulated by this Agreement and current legislation of Ukraine.

Article 5. **RELEASE FROM RESPONSIBILITY**

5.1. The Parties shall be released from responsibility for complete or partial non-fulfillment of any of the provisions hereof, if such non-fulfillment occurred due to reasons that are outside non-fulfilling Party's control. Such causes shall include natural calamities, extreme weather conditions, fires, wars, strikes, warfare, mass disturbances, etc. (the "force-majeure") but shall not be limited to those.

5.2. The period of release from responsibility shall start from the moment the non-fulfilling Party notifies of force-majeure circumstances.

5.3. Force-majeure shall automatically extend the term of fulfilling obligations for the entire period of its operation and liquidation of its consequences. The Parties shall promptly inform each other of the occurrence of force-majeure circumstances.

5.4. If these circumstances operate for more then one (1) month, each Party shall be entitled to refuse further fulfillment of obligations hereunder and, in such case, each Party shall not be entitled to apply penalties to the other Party. The facts of occurrence and duration of force-majeure shall be certified by documents of competent authorities empowered to certify force-majeure in accordance with current legislation of Ukraine.

Article 6. **DISPUTE SETTLEMENT**

6.1. All disputes and discrepancies arising between the Parties hereunder shall be settled by mutual consultation and negotiation.

6.2. If the Parties are unable to agree on disputable issues by negotiation, the dispute shall be submitted for consideration to an economic court in accordance with current legislation of Ukraine.

Article 7. **FINAL PROVISIONS**

7.1. All changes and amendments hereto shall be done in writing and signed by authorized representatives of the Parties with obligatory reference to the Agreement.

7.2. All annexes to this Agreement shall be its inalienable part.

7.3. All notices hereunder shall be considered properly given if done in writing and sent by registered mail or courier to the specified addresses of the Parties. The date of receiving such notices shall be considered the date of their personal delivery to the authorized person of the Party.

7.4. The Agreement shall take effect from the moment of its signing by Parties' authorized representatives and shall be valid till Parties' discharge of their obligations hereunder.

7.5. Titles of Articles and Sections hereof shall be for convenience only and do not have any impact whatsoever on their content and construction.

7.6. The Agreement has been done in three copies in Ukrainian, one for each Party and one for the National Bank of Ukraine. All copies shall have equal legal effect..

Article 8. **INFORMATION AND SIGNATURES OF THE PARTIES**

MINFIN:	**DEALER**
_____	_____
signature	signature
SEAL	SEAL

Annex No. 1
to Agreement of __, __, 2009

List of information provided by the Dealer

1. Report on daily movement of Government Bonds in the securities account at the NBU Depositary, each quarter no later than 15th of the month following the reporting quarter.

2. Yields and volumes under purchase and sale agreements at stock exchanges no later than the following working day after the reporting day.

3. Quarterly financial statements no later than the 15th of the month following the reporting quarter.

MINFIN:	**DEALER**
_____	_____
signature	signature
SEAL	SEAL

ATTACHMENT 10

Comparative Table
to the Draft Decree of the Cabinet of Ministers of Ukraine "On Approving the Amendments to the Procedure for Local Budget Borrowings"

Content of the provision (norm) of the current legislation	Content of the provision (norm) of the proposed Draft Decree	Detailed substantiation
3. Borrowings may take the following forms: municipal bonds issue; (paragraph 2, item 3 with amendments introduced pursuant to the Decree of the Cabinet of Ministers of Ukraine dated 08.11.2006 No. 1561) entering into agreements on obtaining loans, credits, credit lines with financial institutions.	Add the following paragraph: **When placing municipal bonds through their public offering on the Stock Exchange, it is allowed that they are repaid by the first holder at the price different from their par value.**	Factoring in significant changeability in the capital market, interest rates can increase in between approval of the resolution of the city council and market placement of municipal bonds. Therefore, we have recently failed to place municipal bonds of some cities. On the other hand, if we apply fluctuating interest rates for municipal bonds, the risks of unprecedented raise in budget spending for bonds servicing related to possible increase of the base for determining the fluctuating rate will grow considerably. Under the given circumstances, the restriction to place interest bonds at the price below their par value will serve an impediment for the local governments to execute their lawful authority to borrow. The possibility of bonds repayment by the first holder at the price different from their par value when placing municipal bonds through their public offering on the Stock Exchange could address the given challenge.
6. With regard to intentions to borrow or restructure its debt liabilities or effect other transaction, the Verkhovna Rada of the Autonomous Republic of Crimea or city		

council shall notify the Ministry of Finance in writing attaching the following:		
3) a copy of the report on execution of the local budget in the year preceding the year in which the resolution to borrow or restructure its debt liabilities or effect other transaction was made;	Change sub-paragraph 3 paragraph 6 hereof and introduce it in the following wording: 3) copy of the report**s** on execution of the relevant local budgets for **three years** preceding the year in which the resolution to borrow or restructure its debt liabilities or effect other transaction was made;	Pursuant to requirements of the Budget Code of Ukraine, local budget borrowings are performed for a defined purpose and are liable to compulsory repayment. It implies that one of the key requirements with regard to borrowing or restructuring of its debt liabilities or effecting other transaction and its compliance with the requirements of budget law shall be the ability of local governments to perform its debt liabilities in full and in a timely manner. The evaluation of such debt carrying capacity must be based on the actually secured development budget revenues over the last five years rather than on some assumptions regarding prospective development budget revenues. Such approach eliminates subjective assessment, makes it clear-cut and transparent.
5) a justification of local development budget special fund revenues aimed to repay the principal of the local debt over the entire repayment period including proceeds generated from the alienation of municipal property including sale of non-agricultural land plots, dividends on stocks (shares, interests) of economic entities owned by the relevant territorial communities; income from repayment of loans issued from the relevant budget before the Budget Code	**Delete**	See substantiation to sub-paragraph 3 paragraph 6.

took effect as well as interests paid for servicing thereof.		
6) information on rating assessment of securities - if the borrowing is performed by way of municipal bonds issue; information on the borrower's credit rating - if the borrowing is performed by way of entering into agreements on obtaining loans, credits, credit lines with financial institutions. Rating assessment and credit rating shall be assigned by the rating agencies or recognized international rating agencies authorized by the Securities and Stock Market State Commission (sub-paragraph 6 paragraph 6 of the Decree of the Cabinet of Ministers of Ukraine dated 08.11.2006 No. 1561)	**Delete**	The requirement related to rating assessment of securities or credit rating of the borrower is not stipulated by the budget legislation. Under the given circumstances, the requirement related to providing information on rating assessment and credit rating does not meet the principal aim of the Ministry of Finance inspection - ensuring that the draft resolution to borrow or effect other transaction is in compliance with the requirements of budget law. Moreover, the price for services on assigning rating assessment of securities or credit rating of the borrower makes rather significant amount of the total borrowing for the majority of territorial communities which impedes effective use of the borrowed funds. In view of the above, sub-paragraph 6 paragraph 6 must be deleted.
7. The Ministry of Finance within 20 working days upon receipt of the information and documents specified in paragraph 6 hereof, shall review those and verify compliance of the expenditures for servicing of the local debt with the limits stipulated by the legislation. In the event the servicing of the local debt incurred as a result of borrowing or other transaction is to be carried out in the future	**Change and introduce it in the following wording:** The Ministry of Finance within 20 working days upon receipt of the information and documents specified in paragraph 6 hereof, shall review those and verify **compliance of the draft resolution to borrow or effect other transaction with the requirements of budget legislation.**	In the current wording of paragraph 7 hereof, part 4 does not correspond with part 1. Pursuant to part 4, a conclusion is made as to compliance or non-compliance of the draft resolution to borrow or effect other transaction with the requirements of budget legislation. At that, part 1 addresses only inspection of compliance of the expenditures for **servicing** of the local debt with the limits stipulated by the legislation. The proposed wording eliminates such discrepancy.

budget periods, the said inspection shall use the relevant local budget general fund expenditures based on the report on execution of the local budget in the year preceding the year in which the resolution to borrow or restructure its debt liabilities or effect other transaction was made. If such borrowing liabilities are denominated in a foreign currency, the amount shall be calculated based on the official exchange rate of the National Bank of Ukraine as of the date of such inspection. Based on the review and inspections, a conclusion shall be made as to compliance or non-compliance of the draft resolution to borrow or effect other transaction with the requirements of budget legislation, the conclusion shall be reported to the relevant authority. The Ministry of Finance, when considering the information and documents, shall be entitled if necessary to receive additional information required to draw up such conclusion in accordance with the established procedure.	If such borrowing liabilities are denominated in a foreign currency, the amount shall be calculated based on the official exchange rate of the National Bank of Ukraine as of the date of such inspection. The Ministry of Finance, when considering the information and documents, shall be entitled if necessary to receive additional information required to draw up such conclusion in accordance with the established procedure. Based on the review and inspections, a conclusion shall be made as to compliance or non-compliance of the draft resolution to borrow or effect other transaction with the requirements of budget legislation, the conclusion shall be reported to the relevant authority. **At that, the conclusion on non-compliance with the legislation requirements shall be provided in the following instances:** **If expenditures related to local debt servicing exceed 10% of the general fund expenditures pertaining to the relevant local budget based on the**	In order to ensure transparency, elimination of subjective approaches towards determining compliance or non-compliance of the draft resolution to borrow or effect other transaction with the requirements of budget legislation, it is proposed to establish an exclusive list of reasons for making a conclusion on non-compliance of the draft resolution to borrow or effect other transaction with the requirements of budget legislation..

	report on execution of the local budget in the year preceding the year in which the resolution to borrow or restructure its debt liabilities or effect other transaction was made; **If overall local debt payments for any year exceed average-weighted income of the development budget for the last three years preceding the year in which the resolution was made not taking into account the funds raised through borrowing.**	

ATTACHMENT 11

ASSOCIATION OF UKRAINIAN CITIES AND COMMUNITIES

Voluntary Union of Local Governments

5-89
04/14/2009

A.I. Balyuk
Chairman of the Securities and
Stock Market State Commission

Dear Anatoly Ivanovych,

On 26 March 2009, the Association of Ukrainian Cities and Communities, together with "Credit-Rating" rating agency, conducted a round table in Kyiv "Energy Saving Problems of the Ukrainian Cities and Solutions in Conditions of the Financial and Economic Crisis". According to results of the round table which was attended by the city mayors, their deputies, energy saving specialists, representatives of the relevant Ministries, of the National Agency of Ukraine on Effective Use of Energy Resources, international participants of the financial markets, an Address to the President of Ukraine, Verkhovna Rada of Ukraine, Cabinet of Ministers of Ukraine and all political forces was adopted about taking urgent measures for stimulation of investment projects in the area of energy saving, in the budget area and environment protection in Ukraine.

Taking into account that lack of investments is the biggest obstacle on the way of implementation of energy saving projects and ensuring effective functioning of the communal energy sector, we request you to promote introduction of amendments to the normative and legal framework regulating the issue of attraction of debt resources by the local self-government bodies through issuance of domestic municipal bonds.

In particular, in conditions of economic crisis, review of parameters of the issued debt liabilities (interest rate, par value, term of issue) becomes an objective reality. For example, interest rate may increase from the moment of its approval by the city council. In this case, according to the effective legislation requirements, the cities must go again through the recurrent procedure of registration at the Ministry of Finance of Ukraine and the Securities and Stock Market State Commission. This causes loss of time and, accordingly, loss of resources. In order to avoid such problems, we suggest the following:

- To expand opportunities for municipalities to come to the borrowing market through granting to them of the right to place bonds for which there may be not only payment of interest income but also their placement below par value (in case of public placement on the stock exchange).
- To determine that term of placement of municipal bonds is not restricted with one budget period. The effective Ukrainian legislation prohibits from making placement of municipal bonds in the year following the year when the local council adopted its decision. As a result, the local council bears additional expenses for recurrent registration of bonds which is unacceptable in crisis conditions. In order to prevent such situation, it is proposed in the conditions of unfavourable conjuncture in the capital market to introduce a longer period for placement of municipal bonds, which allows to make borrowings according to the planned volume on acceptable terms.

Approval of the proposed changes will allow to make already today realistic steps for promotion of energy saving measures in the system of housing and communal economy and budget sphere of Ukraine in general through support and stimulation of energy saving projects implementation.

Sincerely yours,

(Signature)

M.V. Pitsyk
Vice Executive President
of the Association of Ukrainian Cities and Communities

ATTACHMENT 12

UAH million

Date	Total	Securities held by			
		NBU	Banks	Others	Non-residents
as of 05.01	29157.93	8547.12	16969.07	3179.77	461.98
as of 12.01	29157.93	8547.12	16997.68	3142.53	470.60
as of 19.01	29236.13	8547.12	17017.60	3210.30	461.11
as of 26.01	29334.37	8547.12	17037.71	3373.80	375.74
as of 02.02	33034.38	8547.12	20710.96	3375.74	400.56
as of 09.02	32418.05	8547.12	20133.47	3357.42	380.04
as of 16.02	32418.04	8547.12	20111.23	3359.90	399.80
as of 23.02	33784.10	10347.11	19671.46	3365.52	400.01
as of 02.03	33784.10	11219.74	18789.27	3370.10	405.00
as of 10.03	33784.10	12919.74	17095.34	3369.21	399.81
as of 16.03	33764.70	12919.74	17099.46	3379.18	366.32
as of 23.03	35267.55	14420.77	17287.91	3389.38	169.50
as of 30.03	35267.55	18305.77	13465.42	3360.89	135.47
as of 06.04	34549.62	18305.77	13086.80	3023.55	133.51

Source: NBU.

ATTACHMENT 13

Schedule of placement of domestic government bonds for the first half-year 2009.

Calendar month	Type of DGB	Days of placement				
		1st Monday	2nd Monday	3rd Monday	4th Monday	5th Monday
		DGB maturity				
February	SHORT-TERM	x	3 months	6 and 12 months	9 months	x
	MIDDLE-TERM		2 years	x	3 years	
	LONG-TERM		x	x	x	
March	SHORT-TERM	3 and 12 months	x	6 and 12 months	3 months	9 months
	MIDDLE-TERM	x		x	2 years	3 years
	LONG-TERM	x		x	x	x
April	SHORT-TERM	3 and 9 months	12 months	x	6 months	x
	MIDDLE-TERM	2 years	3 years		5 years	
	LONG-TERM	x	7 years		10 years	
May	SHORT-TERM	x	x	6 and 12 months	3 and 9 months	x
	MIDDLE-TERM			2 and 5 years	3 years	
	LONG-TERM			7 years	10 years	
June	SHORT-TERM	3 and 9 months	6 and 12 months	x	9 and 12 months	6 months
	MIDDLE-TERM	2 years	5 years		3 years	x
	LONG-TERM	x	10 years		x	7 years

Schedule of placement of domestic government bonds for the first half-year 2009.

	3 months	6 months	9 months	12 months	2 years	3 years	5 years	7 years	10 years
09.02.2009	placement (03.06.2009)	x	x	x	placement (09.02.2011)	x	x	x	x
16.02.2009	x	reopening (02.09.2009) UA3B00022400	x	placement (10.02.2010)	x	x	x	x	x
23.02.2009	x	x	placement (07.10.2009)	x	x	placement (07.03.2012)	x	x	x
02.03.2009	reopening (24.06.2009) UA4000050058		x	placement (reopening) (10.02.2010)	x	x	x	x	x
09.03.2009	x	x	x	x	x	x	x	x	x
16.03.2009	x	reopening (02.09.2009) UA3B00022400	x	placement (reopening) (10.02.2010)	x	x	x	x	x
23.03.2009	reopening (24.06.2009) UA4000050058	x	x	x	placement (reopening) (09.02.2011)	x	x	x	x
30.03.2009	x	x	placement (reopening) (07.10.2009)	x	x	placement (reopening) (07.03.2012)	x	x	x
06.04.2009	reopening (24.06.2009) UA4000050058	x	placement (reopening) (02.12.2009)	x	placement (reopening) (09.02.2011)	x	x	x	x
13.04.2009	x	x	x	reopening (05.05.2010) UA3B00022004	x	placement (reopening) (07.03.2012)	x	placement (08.06.2016)	x

20.04.2009	x	x	x	x	x	x	x	x	x
27.04.2009	x	placement (reopening) (07.10.2009)	x	x	x	x	placement (14.05.2014)	x	placement (17.07.2019)
04.05.2009	x	x	x	x	x	x	x	x	x
11.05.2009	x	x	x	x	x	x	x	x	x
18.05.2009	x	placement (reopening) (02.12.2009)	x	reopening (05.05.2010) UA3B00022004	placement (06.07.2011)	x	placement (reopening) (14.05.2014)	placement (reopening) (08.06.2016)	x
25.05.2009	reopening (02.09.2009) UA3B00022400	x	placement (reopening) (10.02.2010)	x	x	placement (11.07.2012)	x	x	placement (reopening) (17.07.2019)
01.06.2009	reopening (02.09.2009) UA3B00022400	x	placement (reopening) (10.02.2010)	x	placement (reopening) (06.07.2011)	x	x	x	x
08.06.2009	x	placement (reopening) (02.12.2009)	x	reopening (05.05.2010) UA3B00022004	x	x	placement (reopening) (14.05.2014)	x	placement (reopening) (17.07.2019)
15.06.2009	x	x	x	x	x	x	x	x	x
22.06.2009	x	x	placement (reopening) (10.02.2010)	reopening (05.05.2010) UA3B00022004	x	placement (reopening) (11.07.2012)	x	x	x
29.06.2009	x	placement (reopening) (02.12.2009)	x	x	x	x	x	placement (reopening) (08.06.2016)	x

ATTACHMENT 14

Narrative part of the draft law of Ukraine "On State Budget of Ukraine for 2009" regarding government debt

Article language in 2008 Budget	Proposals regarding language of Articles in the draft law of Ukraine "On State Budget of Ukraine for 2009"	Detailed justification
Article 11.	**Article 11.** **The Ministry of Finance shall make domestic government borrowings through holding regular auctions with announced beforehand minimum amounts of borrowing at each auction.**	The global financial crisis has significantly reduced opportunities to borrow in external capital markets or made them nonexistent. In such conditions, borrowing in the domestic market increases significantly. On the other hand, the planned amount of 2009 borrowing is rather large, given the capacity of Ukraine's domestic market. In such circumstances, such plan may be implemented only if regular auctions are held during the entire year, placing approximately equal amounts, not overloading the domestic market. Holding regular auctions for placing of declared beforehand amounts of government bonds at prices that are formed at these auctions would be decisive for introducing the primary dealer system, which is Ukraine's obligation pursuant to the Memorandum on Economic and Financial Policies with the IMF.
Article 16. To save budget funds, the Ministry of Finance of Ukraine shall be given the right to transact in government debt of Ukraine including exchange, issuance and buyback of government debt obligations with due observance of the government debt cap as of the year-end.	**Article 16** should be supplemented by the passage: **To ensure liquidity of government bonds, the Ministry of Finance may order services to support two-sided quotations of government bonds. Contractors of such services (the "primary dealers") may have exclusive access to the primary market of government bonds.**	The key issue in introducing primary dealer system is their ability to support two-sided quotations of government bonds.

ATTACHMENT 15

Comparative Table for the Draft Law of Ukraine
"On Introduction of Amendments to the Budget Code of Ukraine"

Summary of proposals

To replace the term "transactions" with "deeds" in definitions of debt
To introduce a definition of debt management
To introduce regular auctions on placement of government bonds with preliminary announcement of minimum amounts of borrowings at every auction
To introduce a possibility for the Ministry of Finance of Ukraine to use services on support of bilateral quotations in exchange for exclusive access to the primary market of government bonds
To normalize classification of financing
To normalize classification of debt
To cancel prohibition for the cities to make external borrowings
The borrowers and guarantors are territorial communities of cities and Autonomous Republic of Crimea
To introduce possibility to intercept local budget funds within the limits of proceeds of the development budget by the Treasury in case of non-fulfillment of liabilities by the borrower or guarantor
To restrict contributions of the local self-government bodies in the statutory capital of the subjects of entrepreneurial activities with just the subjects of business of the communal sector of economy
To provide possibility for power bodies of the Autonomous Republic of Crimea and local self-government bodies to credit the subjects of business of the communal sector of economy located in the territory of the Autonomous Republic of Crimea or of the relevant city
To restrict prohibition in case of violation of the payment schedule only for making new borrowings, and to preserve the right to make borrowings for debt refinancing purposes
To introduce definition of "contigent debt" and to regulate undertaking of obligations by the state and local territorial communities under public-private partership

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
	Draft	*Draft*
LAW OF UKRAINE **On Introduction of Amendments to the Budget Code of Ukraine** **GENERAL PART** **Section I. GENERAL PROVISIONS**	**LAW OF UKRAINE** **On Introduction of Amendments to the Budget Code of Ukraine** **GENERAL PART** **Section I. GENERAL PROVISIONS**	**LAW OF UKRAINE** **On Introduction of Amendments to the Budget Code of Ukraine** **Section I. BUDGET SYSTEM OF UKRAINE AND FUNDAMENTALS OF**

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
		THE BUDGET PROCESS
Chapter 1. GENERAL PROVISIONS **Article 2.** Definitions of Basic Terms	**Chapter 1. GENERAL PROVISIONS** **Article 2.** Definitions of Basic Terms	**Chapter 1. GENERAL PROVISIONS** **Article 2.** Definitions of Basic Terms
1. The terms used in this Code shall be understood as follows:	1. The terms used in this Code shall be understood as follows: **18) debt guaranteed by the state – total amount of debt liabilities of the subjects of business – residents of Ukraine regarding received and non-repaid as of a certain date credits (loans) fulfillment of which is ensured by the government guarantees;** **19) debt guaranteed by the Autonomous Republic of Crimea or territorial community of the city – total amount of debt liabilities of the subjects of business – residents of Ukraine regarding received and non-repaid as of a certain date credits (loans) fulfillment of which is ensured by local guarantees;**	1. The terms used in this Code shall be understood as follows: **21**) debt guaranteed by the state – total amount of debt liabilities of the subjects of business – residents of Ukraine regarding received and non-repaid as of a certain date credits (loans) fulfillment of which is ensured by the government guarantees; **22**) debt guaranteed by the Autonomous Republic of Crimea or territorial community of the city – total amount of debt liabilities of the subjects of business – residents of Ukraine regarding received and non-repaid as of a certain date credits (loans) fulfillment of which is ensured by local guarantees;
21) Borrowing – transactions related to receipt of the budget funds on the terms of repayment, payback and time limits that result in appearance of liabilities of the state, the Autonomous Republic of Crimea, or local self-government to the creditors;	21) **government** borrowing – deeds related to receipt by the **state of credits (loans)** on the terms of repayment, payback and time limits in order to finance the state budget;	**24**) government borrowing – deeds related to receipt by the state of credits (loans) on the terms of repayment, payback and time limits in order to finance the state budget;
	21) **government** borrowing – **deeds** related to receipt by the **state of credits (loans)** on the terms of repayment, payback	The Ukrainian legislation does not contain definition of the term “transactions”, that is why why definition through undefined

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
	and time limits in order to finance the state budget;	term does not reach its purpose. On the other hand, civil legislation has a term which completely fits definition of the government borrowing. It is the term "deed". According to the Civil Code of Ukraine, a deed is an action of a person aimed at acquisition, change or termination of civil rights and duties. Taking the aforesaid into account, it is necessary to replace the term "transactions" with "deeds" in definitions.
22) government debt (debt of the Autonomous Republic of Crimea or debt of local self-government) – total amount of debt of the state (Autonomous Republic of Crimea or local self-government) consisting of all issued and non-repaid debt liabilities of the state (Autonomous Republic of Crimea or local self-government), including debt liabilities of the state (Autonomous Republic of Crimea or city councils) which become valid as a result of issued guarantees on loans or liabilities arising on the grounds of legislation or agreement;	22) government debt – total amount of **unconditional** debt liabilities of the state **on repayment of received and non-repaid credits (loans) as of a certain date arising as a result of government borrowing**;	**25**) government debt – total amount of unconditional debt liabilities of the state on repayment of received and non-repaid credits (loans) as of a certain date arising as a result of government borrowing;
23) budget deficit – excess of budget expenditures over budget revenues;	23) budget deficit – excess of budget expenditures over its revenues **(with taking into account difference between issuance of credits from the budget and repayment of credits to the budget)**; **35) local borrowing – transactions related to receipt by the budget of the Autonomous Republic of Crimea or local budget of credits (loans) on the terms of**	**26**) budget deficit – excess of budget expenditures over its revenues (with taking into account difference between issuance of credits from the budget and repayment of credits to the budget); **38**) local borrowing – transactions related to receipt by the budget of the Autonomous Republic of Crimea or local budget of credits (loans) on the terms of repayment, payback

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
	repayment, payback and time limits in order to finance the budget of the Autonomous Republic of Crimea or local budget;	and time limits in order to finance the budget of the Autonomous Republic of Crimea or local budget;
	35) local borrowing – deeds related to receipt by the budget of the Autonomous Republic of Crimea or local budget of credits (loans) on the terms of repayment, payback and time limits in order to finance the budget of the Autonomous Republic of Crimea or local budget;	The Ukrainian legislation does not contain definition of the term "transactions", that is why why definition through undefined term does not reach its purpose. On the other hand, civil legislation has a term which completely fits definition of the government borrowing. It is the term "deed". According to the Civil Code of Ukraine, a deed is an action of a person aimed at acquisition, change or termination of civil rights and duties. Taking the aforesaid into account, it is necessary to replace the term "transactions" with "deeds" in definitions.
	37) local debt – total amount of unconditional debt liabilities of the Autonomous Republic of Crimea or territorial community of the city with repayment of received and non-repaid credits (loans) as of a certain date arising as a result of local borrowing;	**40**) local debt – total amount of unconditional debt liabilities of the Autonomous Republic of Crimea or territorial community of the city with repayment of received and non-repaid credits (loans) as of a certain date arising as a result of local borrowing;
39) budget proceeds – budget revenues and funds raised as a result of undertaking of debt liabilities by the state power bodies, power bodies of the Autonomous Republic of Crimea, or local self-government bodies;	39) budget proceeds – budget revenues, **repayment of credits to the budget, funds from the government (local) borrowings, proceeds from privatization of state property, return of funds from deposits or receipt of funds as a result of presentation of securities**;	**42**) budget proceeds – budget revenues, repayment of credits to the budget, **funds** from the government (local) borrowings, funds from privatization of state property **(to the state budget)**, return of funds from deposits or receipt of funds as a result of presentation of securities;
47) budget surplus – excess of budget revenues over budget expenditures;	47) budget surplus – excess of budget revenues over budget expenditures; **(with taking into account difference between**	**50**) budget surplus – excess of budget revenues over budget expenditures; (with taking into account difference between

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
	repayment of credits to the budget and issuance of credits from the budget);	repayment of credits to the budget and issuance of credits from the budget);
53) budget financing – proceeds and expenses related to changes in the amount of debt as well as changes in the balance of budget cash resources used to cover the gap between budget revenues and budget expenditures.	53) budget financing – proceeds and expenses related to changes **in the amount of debt, amounts of deposits and securities, proceeds from privatization of state property (for the state budget)**, changes in the balance of budget cash resources used to cover **budget deficit or to define budget surplus**.	**56**) budget financing – proceeds and expenses related to changes in the amount of debt, amounts of deposits and securities, **funds** from privatization of state property (for the state budget), changes in the balance of budget cash resources used to cover budget deficit or to define budget surplus.
	54) government (local) debt management – a set of measures by the state (local) power bodies to ensure correspondence between state (local) debt liabilities and possibilities of the state (relevant territorial community) to repay and service them, which includes optimization of the state debt structure and its dynamics; defining sources of proceeds from loan funds and the circle of creditors; selection of types of borrowing, defining their volumes, frequency of issuances and mechanism of implementation; regulation of the market of government (local) securities; issue, servicing and repayment of all types of debt instruments; providing state (local guarantees; taking measures aimed at maintenance and increase of Ukraine's credit rating (of the relevant territorial community); providing information; reporting and control.	One of the functions of power bodies should be a function to manage debt formed as aresult of budget financing. Contents of this function is not reflected in the legislation. Taking into accopunt importance of borrowings in the budget structure, it is expedient to introduce this definition into the Budget Code.
	55) Contigent government debt – total amount of government liabilities	See comment to sub-item 57, item 1, Article 2

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
	undertaken according to this Code and which become valid in case of occurrence of certain events. Contigent government debt consists of debt guaranteed by the state and debt under a public-private partnership.	
	56) Contigent local debt – total amount of **liabilities of the Autonomous Republic of Crimea or territorial community of a city** undertaken according to this Law and which become valid in case of occurrence of certain events. Contigent local debt consists of debt guaranteed by **the Autonomous Republic of Crimea or territorial community of a city** and debt under a public-private partnership.	See comment to sub-item 57, item 1, Article 2
	57) **public-private partnership** – raising by the state (Autonomous Republic of Crimea, territorial community of a city) of private financing for construction (reconstruction) of the objects which according to the laws are constructed (reconstructed) from the funds of the relevant budget. Repayment of raised financing is conducted through payment for these objects by the government, Autonomous Republic of Crimea or territorial community of a city upon the condition of their putting into operation and compliance with the established requirements.	In case of insufficiency of budget funds for construction (reconstruction) of the infrastructure objects, the government and territorial communities make borrowings and finance such construction from such borrowings. At that, construction risk rests completely with the government or territorial community. In the last decades, the so called public-private partnership (PPP) became very popular in the developed countries, which predominantly means that power bodies attract not the budget but private financing for such objects on a competitive basis, and they undertake obligation to repay through payment (compensation) on certain terms, should the object comply with the established

Current version	Version adopted in the first reading	Draft Law suggested by the Chief Committee in final version
		requirements. At that, construction risk rests completely with the private partner who is interested in achieving the best correlation between expenses and quality. This gives grounds to hope for more effective use of budget funds than in case of usual schemes. On the other hand, liabilities under PPP in case of construction and transfer of the object must have the status of government or local debt, otherwise a private partner will not dare to accept the risks of availability of money in the relevant budget to pay for the object. In connection with this, debt management under PPP must take place along with management of government and local debt. One of the key instruments of such management should be establishment by the relevant legislative or representative bodies of limits for liabilities under PPP. Righ now, public-private partnership is not used in Ukraine because the legislation does not regulate authorities of power bodies to undertake liabilities under such partnership. Inclusion in the Code of the norms regulating such authorities will ensure better possibilities for effective use of budget funds.

Chapter 2. BUDGET SYSTEM OF UKRAINE AND ITS PRINCIPLES	**Chapter 2. BUDGET SYSTEM OF UKRAINE AND ITS PRINCIPLES**	**Chapter 2. BUDGET SYSTEM OF UKRAINE AND ITS PRINCIPLES**
Article 8. Budget Classification 1. The budget classification of Ukraine is used for exercising control over financial activities of the state power bodies, power bodies of the Autonomous Republic of Crimea, local self-government bodies, and other administrators of budget funds, making necessary analysis by revenue items, as well as by organizational, functional and economic categories of expenditures, and ensuring national and international comparability of the budget indices.	**Article 8. Budget classification** 1. The budget classification of Ukraine is used for exercising control over financial activities of the state power bodies, power bodies of the Autonomous Republic of Crimea, local self-government bodies, and other administrators of budget funds, making necessary analysis by revenue items, as well as by organizational, functional and economic categories of expenditures, **lending, financing and debt** and ensuring national and international comparability of the budget indices.	**Article 8. Budget classification** 1. The budget classification **is used for compiling and fulfillment of the state and local budgets**, exercising control over financial activities of the state power bodies, power bodies of the Autonomous Republic of Crimea, local self-government bodies, and other administrators of budget funds, making **financial** analysis by revenue items, as well as by organizational, functional and economic categories of expenditures, lending, financing and debt, **as well as** ensuring national and international comparability of the budget indices. **Budget classification is mandatory for use by all participants of the budget process.**
	1. The budget classification of Ukraine is used for exercising control over financial activities of the state power bodies, power bodies of the Autonomous Republic of Crimea, local self-government bodies, and other budget funds administrators, making necessary analysis by revenue items, as well as by organizational, functional and economic categories of expenditures, **lending and financing** and ensuring national and international comparability of the budget indices.	According to definition 53

2. In order to achieve integrity of the budget categories of revenues and expenditures and correlation between functional objectives and economic nature of budget expenditures, the Minister of Finance of Ukraine shall approve the budget classification as well as amendments thereto and inform the Verkhovna Rada about such changes on a mandatory basis.	2. In order to achieve integrity of the budget categories of revenues and expenditures, **lending, financing and debt** and correlation between functional objectives and economic nature of budget expenditures, the Minister of Finance of Ukraine shall approve the budget classification as well as amendments thereto and inform the Verkhovna Rada about such changes on a mandatory basis.	2. **The Ministry** of Finance of Ukraine approves the budget classification, **including** amendments thereto, and informs about this **the Budget Committeee** of the Verkhovna Rada of Ukraine.
3. Budget classification has the following components: 1) budget revenue classification; 2) budget expenditure (including lending net of redemption) classification; 3) budget financing classification; and 4) debt classification.	3. Budget classification has the following components: 1) budget revenue classification; 2) budget expenditure **and lending** classification; 3) budget financing classification; and 4) debt classification.	3. Budget classification has the following components: 1) budget revenue classification; 2) budget expenditure **and lending** classification; 3) budget financing classification; and 4) debt classification.
Article 11. Budget Financing Classification 1. Budget financing classification shall define the sources from which financial resources are received to cover budget deficits, as well as directions for use of financial resources which were formed as a result of excess of budget revenues over budget expenditures (this category includes payments on principal repayment).	**Article 11.** Budget Financing Classification 1. Budget financing classification shall define the sources from which financial resources are received to cover budget deficits, as well as directions for use of financial resources which were formed as a result of **budget surplus. Budget financing includes payments on principal repayment**.	**Article 11.** Budget Financing Classification 1. Budget financing classification shall **contain** the sources from which financial resources are received to cover budget deficits, as well as directions for use of financial resources which were formed as a result of budget surplus. Budget financing includes payments on principal repayment.
2. Budget financing is classified by: 1) financing by creditor type, i.e., by category of creditors or holders of debt liabilities; and	2. Budget financing is classified by: 1) creditor type; and	2. Budget financing is classified by: 1) creditor type **(categories of creditors or holders of debt liabilities)**; and
2) financing by type of debt liability, i.e., methods used for deficit or surplus financing.	2) type of debt liability (methods used to finance the budget).	2) type of debt liability (methods used to finance the budget).

	2. Budget financing is classified by: 1) type of sources (debt, privatization, deeds with assets); 2) directions of use (deficit financing, debt repayment, creation of separate funds). 3) currency of borrowings and debt repayment (foreign, domestic)	In the proposed version, classification of financing, first of all, does not cover definition of financing in sub-item 2 of Article 53, secondly, does not reflect the practice of financing classification according to Appendix 2 of the Law of Ukraine "On State Budget of Ukraine for 2009", according to which borrowings and repayments are divided into foreign and domestic in terms of currency, thirdly, duplicates debt classification. Moreover, financing classification by type of creditor and type of debt liability has no practical meaning because Article 16 entitles the Minister of Finance to select a creditor, type, currency, term and interest rate of the borrowing.
Стаття 12. Debt Classification	**Стаття 12.** Debt Classification	**Стаття 12.** Debt Classification
1. Debt classification shall systematize information on all debt liabilities of the governemnt, the Autonomous Republic of Crimea and local self-government.	1. Debt classification shall systematize information on all debt liabilities of the governemnt, the Autonomous Republic of Crimea and **territorial community of a city**.	1. Debt classification shall systematize information on all debt liabilities of the governemnt, the Autonomous Republic of Crimea and territorial community of a city.
2. Debt shall be classified by type of creditor and by type of debt liabuility.	2. Debt shall be classified by type of creditor and by type of debt liabuility. 2. Debt shall be classified by type of creditor, by type of debt liabuility and currency of liability into foreign and domestic.	2. Debt shall be classified by type of creditor and by type of debt liabuility. To determine the real need in budget funds to repay debt, it is important to have debt classification by currency of liability, taking into account volatility of exchange rates with respect to Hryvnya.
Article 13. Structure of the Budget	**Article 13. Structure of the Budget**	**Article 13. Structure of the Budget**
1. The budget shall consist of the	1. The budget shall consist of the general	1. The budget shall consist of the general

general and special funds.	and special funds.	and special funds.
2. The general budget fund includes:	2. The general budget fund includes:	2. The general budget fund includes:
1) all budget revenues, except for those that are allocated to a special fund of the budget;	1) all budget revenues, except for those that are allocated to a special fund of the budget;	1) all budget revenues, except for those that are allocated to a special fund of the budget;
2) all budget expenditures funded from general fund receipts;	2) all budget expenditures funded from general fund receipts;	2) all budget expenditures funded from general fund receipts;
	3) crediting of the budget (return of credits to the budget without determining the direction of their use and extending of loans from the budget from general fund receipts);	3) crediting of the budget (return of credits to the budget **without determining the purpose of their allocation** and extending of loans from the budget from general fund receipts);
4) financing of the general budget fund.	4) financing of the general budget fund.	4) financing of the general budget fund.
3. Special budget fund includes:	3. Special budget fund includes:	3. Special budget fund includes:
2) grants or donations (in value calculation) received by administrators of budget funds for a specific purpose;	**1) budget revenues (including own proceeds of the budget institutions) with the determined directions of their use;**	1) budget revenues (including own proceeds of the budget institutions) **which are allocated for a special purpose**;
2) all budget appropriations for expenditures funded from specifically identified sources of proceeds;	2) **budget expenditures** funded from specifically identified proceeds **of the special budget fund**;	2) budget expenditures funded from specifically identified revenues of the special budget fund;
	3) crediting of the budget (return of credits to the budget with determining the direction of their use and extending of loans from the budget from specifically identified proceeds of the special budget fund);	3) crediting of the budget (return of credits to the budget **with determining a special purpose** and extending of loans from the budget from specifically identified proceeds of the special budget fund);
3) difference between the revenues and expenditures of the special budget fund.	4) financing of the special budget fund.	4) financing of the special budget fund.
4. Division of the budget into the general and special funds shall be determined by the State Budget Law of Ukraine. The sources of the special budget fund formation shall be defined exclusively	4. In division of the budget into the general and special funds, **components** of the special budget fund shall be defined **exclusively by this Code and the State Budget Law of Ukraine**.	**4. Division of the budget into the general and special funds, their components shall be defined exclusively by this Code and the State Budget Law of Ukraine.**

by the Ukrainian laws. 5. The decision of the relevant rada to create a special fund in its local budget shall be based exclusively on the State Budget Law of Ukraine. 6. Transfer of funds between the general fund and special budget fund shall be permitted only within the amounts of budget appropriations by way of amending the State Budget Law of Ukraine or decision of the relevant rada.	5. The decision of the relevant rada to create a special fund in its local budget shall be based exclusively on **this Code and** the State Budget Law of Ukraine. 6. Transfer of funds between the general fund and special budget fund shall be permitted only within the amounts of budget appropriations by way of amending the State Budget Law of Ukraine, **adoption of the decision on local budget or amending it (except the case envisaged by part 2, Article 57 of this Code)**.	5. The decision of the relevant rada to create a special fund in its local budget shall be based exclusively on this Code and the State Budget Law of Ukraine. 6. Transfer of funds between the general fund and special budget fund shall be permitted only within the amounts of budget appropriations by way of amending the State Budget Law of Ukraine, adoption of the decision on local budget or amending it (except the case envisaged by part 2, Article 57 of this Code).

Chapter 3. BUDGET DEFICIT (SURPLUS) AND DEBT	**Chapter 3. BUDGET DEFICIT (SURPLUS) AND DEBT**	**Chapter 3. FINANCING THE BUDGET (DEFICIT, SURPLUS) AND DEBT**
Article 14. Budget Deficit and Budget Surplus	**Article 14.** Budget Deficit and Budget Surplus, **Budget Funds Balance**	**Article 14.** Budget Deficit and Budget Surplus, Budget Funds Balance
1. The approval of the State Budget of Ukraine or a city budget for the respective budget period with a deficit shall be allowed if reasonable sources of budget deficit financing are available, factoring in specific features set out in Article 72 of this Code.	1. The approval of the State Budget of Ukraine or a city budget for the respective budget period with a deficit shall be allowed if reasonable sources of budget deficit financing are available, factoring in specific features set out in Article 72 of this Code.	1. The approval of the State Budget of Ukraine or a city budget for the respective budget period with a deficit shall be allowed if reasonable sources of budget deficit financing are available, factoring in specific features set out in Article 72 of this Code.
2. A budget surplus shall be approved only to repay the principal debt and ensure retention of the amount of circulating cash balances.	2. A budget surplus shall be approved only to repay the principal debt and ensure retention of the amount of **circulating budget funds balance and factoring in specific features set out in Article 72 of this Code.**	2. A budget surplus shall be approved only to repay the principal debt and ensure retention of the amount of circulating budget funds balance and factoring in specific features set out in Article 72 of this Code.
Article 14[1]. Budget Funds Balance.		
1. Circulating cash balance - part of the balance of general fund of the respective budget formed in the beginning of the planned budget period to cover temporary cash gaps.	3**. Circulating budget funds balance** - part of the balance of general fund of the respective budget formed to cover temporary cash gaps.	3. Circulating budget funds balance - part of the balance of general fund of the respective budget formed to cover temporary cash gaps.
3. Circulating cash balance shall be established to the amount not exceeding 2% of the planned expenditures of the budget general fund and shall be approved pursuant to the Law “On the State Budget of Ukraine” and decision on the local budget.	4. **Circulating budget fund balance** shall be established to the amount not exceeding 2% of the planned expenditures of the budget general fund and shall be approved pursuant to the Law “On the State Budget of Ukraine” (decision on the local budget).	4. Circulating budget fund balance shall be established to the amount not exceeding 2% of the planned expenditures of the budget general fund and shall be approved pursuant to the Law “On the State Budget of Ukraine” (decision on the local budget).

2. Retention of the amount of circulating cash balance as of the end of budget period shall be compulsory.	5. Retention of the established amount of **circulating budget funds balance** as of the end of budget period shall be compulsory.	5. Retention of the established amount of circulating budget funds balance as of the end of budget period shall be compulsory.
4. The difference between the budget general fund balance and circulating cash balance as of the end of budget period shall amount to clear budget funds balance, which is not liable to withdrawal and shall be used for expenditure purposes pursuant to the decision of the relevant council.	6. The difference between the budget general fund balance and **circulating budget fund balance** as of the end of budget period shall amount to clear budget funds balance used for expenditure purposes pursuant to the decision of the relevant council.	6. The difference between the balance of the budget general fund and circulating budget fund balance as of the end of budget period shall amount to clear budget funds balance used for expenditure purposes pursuant to the decision of the relevant council.
Article 15. Sources for Financing the Budget	**Article 15.** Sources for Financing the Budget	**Article** 15. Sources for Financing the Budget
1. Sources for financing budget deficit shall be domestic and external government borrowing, municipal borrowing of authorities of the Autonomous Republic of Crimea, domestic and external borrowing of local self-governments, clear budget funds balance in compliance with conditions envisaged by this Code.	1. Sources for financing budget deficit shall be 1) funds raised through domestic and external borrowing; **2) funds raised through state property privatization (for the state budget);** **3) return of deposit funds or receipt of funds as a result of presenting securities used to manage liquidity;** 4) budget funds balance in compliance with conditions envisaged by this Code.	1. Sources for financing budget deficit shall be 1) **funds** raised through domestic and external borrowing; 2) funds raised through state property privatization (for the state budget); 3) return of deposit funds or receipt of funds as a result of presenting securities used to manage liquidity; 4) budget funds balance in compliance with conditions envisaged by this Code.
6. Money issued by the National Bank of Ukraine cannot serve as a source for financing the state budget deficit of Ukraine.	2. Money issued by the National Bank of Ukraine cannot serve as a source for financing the State budget deficit of Ukraine.	2. Money issued by the National Bank of Ukraine cannot serve as a source for financing the State budget deficit of Ukraine.

2. The Cabinet of Ministers of Ukraine may borrow funds within the limits allowed by the State Budget Law of Ukraine. Borrowing should not be used to provide financial resources for the government's current expenditures, except for cases when this is needed to maintain the general economic balance.

3. In order to save funds and use them effectively, the Minister of Finance of Ukraine shall have the right to choose a creditor, the type of borrowing, and currency factoring in requirements of Section 2 of this Article.

4. Expenditures meant for repayment of debt liabilities shall be carried out pursuant to credit agreements as well as other regulatory and normative acts under which debt liabilities of the state and the Autonomous Republic of Crimea or local self-governments arise, regardless of the amount of resources envisaged to that end by the State Budget Law of Ukraine or decision of the local budget.

5. If expenditures on state debt servicing and redemption of the principal exceed the amounts stipulated in the State Budget Law of Ukraine for this purpose, the Minister of Finance of Ukraine shall promptly inform

the Cabinet of Ministers of Ukraine about this situation. The Cabinet of Ministers of Ukraine shall promptly inform the Verkhovna Rada about the anticipated excess of these expenditures and prepare within a two-week time limit proposals to amend the State Budget Law of Ukraine.		
Article 16. Authority to Borrow	**Article 16.** Borrowing and **Managing Debt Liabilities** **1. Domestic government borrowings and external borrowings shall be effected within the marginal limits of government debt.**	**Article 16.** Borrowing and Managing Debt Liabilities 1. Domestic government borrowings and external borrowings shall be effected within the marginal limits of government debt.
1. Authority to make public borrowing from domestic and foreign sources within the limits and on the terms provided for under the State Budget Law of Ukraine shall be vested in the State in the person of the Minister of Finance of Ukraine on an errand of the Cabinet of Ministers of Ukraine.	Authority to make public borrowing from domestic and foreign sources within the limits provided for under the State Budget Law of Ukraine shall be vested in the State in the person of the Minister of Finance of Ukraine on an errand of the Cabinet of Ministers of Ukraine.	Authority to make public borrowing from domestic and foreign sources within the limits provided for under the State Budget Law of Ukraine shall be vested in the State in the person of the Minister of Finance of Ukraine on an errand of the Cabinet of Ministers of Ukraine.
	The Minister of Finance of Ukraine shall be entitled to choose the creditor, type, currency, maturity and interest rate of the borrowing.	The Minister of Finance of Ukraine shall be entitled to choose the creditor, type, currency, maturity and interest rate of the borrowing.
	The Ministry of Finance shall effect domestic government borrowings by holding regular auctions with pre-announced compulsory minimum of loans on every auction.	Development of the domestic government bonds market serves one of the major factors, which promotes development of financial systems in the majority of countries. Experience of the developed

countries proves that development of the domestic government bonds market is possible only if domestic borrowings are effected on a regular basis taking into account the cost of borrowing, which is planned for a certain time. It implies that the Ministry of Finance when announcing the amount of placement must accept the best bids to place government bonds. On the other hand, the amount of domestic borrowing is usually rather significant in terms of the Ukrainian domestic market capacity. Under the given circumstances, fulfillment of the borrowing plan could be ensured exclusively by holding regular auctions during the whole year and placing the volumes, which overload the domestic market.

In order to ensure liquidity of government bonds, the Ministry of Finance may order services to support the government bonds market, which include bilateral quotations and purchase of government bonds at primary placement. **At that, the performers of such services (primary dealers) could have an exclusive access to the primary government bonds market.**

Services on support of the government bonds market which include bilateral quotations and purchase of government bonds at primary placement are vitally important for development of the domestic government bonds market Bilateral quotations:

provide the financial institutions with indicative guidelines with regard to the current value of government bonds and serve as a benchmark to determine the value of other bonds;

turn government bonds into liquidity management instrument of the financial institutions (in case of excess liquidity, the institution will have an opportunity to

		promptly invest in government bonds, and in case of liquidity deficit, the institution can quickly sell government bonds). Purchase of government bonds shall ensure fulfillment of the domestic borrowing volumes established by the State Budget. International experience proves that the cost of government domestic borrowing will decrease provided the primary dealer system is launched.
	In case of drop in revenues from domestic (external) borrowing compared to the volume specified by the State Budget of Ukraine, in connection with changes in the government securities market, there will be an increase in revenues from external (domestic) borrowing factoring in marginal size of government debt.	In case of drop in revenues from domestic (external) borrowing compared to the volume specified by the State Budget of Ukraine, **in connection with worsening (improving) of borrowing conditions and/or financial market environment,** there will be an increase in revenues from external (domestic) borrowing factoring in marginal size of government debt.
	In case of decrease (increase) in principal payments on government debt compared to the volume specified by the State Budget of Ukraine, there will be a decrease (increase) in government borrowing factoring in the amount of the State Budget financing on debt transactions specified by the Law on the State Budget of Ukraine.	In case of decrease (increase) in principal payments on government debt **in connection with worsening (improving) of conditions in the financial market**, compared to the volume specified by the State Budget of Ukraine, there will be a decrease (increase) in government borrowing factoring in the amount of the State Budget financing on debt transactions specified by the Law on the State Budget of Ukraine.
2. Only the Verkhovna Rada of the	2. Only the Verkhovna Rada of the	2. Only the Verkhovna Rada of the

Autonomous Republic of Crimea and local governments are allowed to effect domestic borrowing (except for the cases stipulated by Article 73 of this Code). Only municipal councils of the cities with a population exceeding eight hundred thousand as per official statistical data available at the time of decision-making may borrow from foreign sources.	Autonomous Republic of Crimea and local governments are allowed to effect domestic borrowing (except for the cases stipulated by Article 73 of this Code). Only municipal councils of the cities with a population exceeding **five** hundred thousand as per official statistical data available at the time of decision-making may borrow from foreign sources.	Autonomous Republic of Crimea and local governments are allowed to effect domestic borrowing (except for the cases stipulated by Article 73 of this Code). Only municipal councils of the cities with a population exceeding five hundred thousand as per official statistical data available at the time of decision-making may borrow from foreign sources.
	2. Only the Verkhovna Rada of the Autonomous Republic of Crimea and local governments are allowed to effect domestic borrowing and assume contingent liabilities (except for the cases stipulated by Article 73 of this Code.	Pursuant to the legislation of Ukraine, local self-government shall be performed directly by territorial communities or through city councils and its executive bodies. Therefore, the Autonomous Republic of Crimea and territorial communities shall be the subjects of law to effect borrowings. To some extent, restriction on foreign borrowing violates the rights of territorial communities of the cities with regard to allocation of revenues of the city development budget. On the other hand, the requirements set forth by Article 18 ensure the compliance of the amount of debt liabilities with the possibilities of the local budget with regard to its fulfillment.
	3. The budget institution shall not be entitled to effect borrowings in any form and issue loans to legal persons and individuals from budget funds.	3. The budget institution shall not be entitled to effect borrowings in any form and issue loans to legal persons and individuals from budget funds.
	3. The budget institution shall not be entitled to effect borrowings in any form and issue loans to legal persons and	The proposed wording did not factor in the possibility of extending a loan if it is provided by the relevant budget.

individuals from budget funds, unless it is provided by the relevant budget.	
4. When effecting government borrowing and providing state guarantees, the Minister of Finance of Ukraine shall be entitled to assume obligations in the name of Ukraine related to effecting borrowings including refusal from sovereign immunity in the event of possible court proceedings connected with credits (loans) reimbursement and exemption from any charges, taxes and other compulsory payments pursuant to the agreements during validity of obligation on repayment of the raised funds.	4. When effecting government borrowing and providing state guarantees, the Minister of Finance of Ukraine shall be entitled to assume obligations in the name of Ukraine related to effecting of borrowings including refusal from sovereign immunity in the event of possible court proceedings connected with credits (loans) reimbursement and exemption from any charges, taxes and other compulsory payments pursuant to the **contracts** during validity of obligation on repayment of the raised funds.
5. Servicing and repayment of the debt shall be effected pursuant to credit agreements as well as regulatory and normative acts based on which debt liabilities arise (debt liabilities of the Autonomous Republic of Crimea or territorial communities of the cities) irrespective of the amount of funds allocated to that end by the State Budget of Ukraine (decision on local budget).	5. Servicing and repayment of the debt shall be effected pursuant to credit agreements as well as regulatory and normative acts based on which debt liabilities arise (debt liabilities of the Autonomous Republic of Crimea or territorial communities of the cities) irrespective of the amount of funds allocated to that end by the State Budget of Ukraine (decision on local budget).
If the expected expenditures on servicing and repayment of government debt shall exceed the amount of funds allocated to that end and specified by the Law on the State Budget of Ukraine, the Minister of Finance of Ukraine shall promptly inform the Cabinet of Ministers of	If the expected expenditures on servicing and repayment of government debt shall exceed the amount of funds allocated to that end specified by the Law on the State Budget of Ukraine, the Minister of Finance of Ukraine shall promptly inform the Cabinet of Ministers of Ukraine about this

	Ukraine about this situation. The Cabinet of Ministers of Ukraine shall promptly inform the Verkhovna Rada of Ukraine about the anticipated excess of expenditures and shall submit respective proposals to amend the Law on the State Budget of Ukraine within two-weeks.	information. The Cabinet of Ministers of Ukraine shall promptly inform the Verkhovna Rada of Ukraine about the anticipated excess of expenditures and shall submit respective proposals to amend the Law on the State Budget of Ukraine within two-weeks.
	If the expected total expenditures on servicing and repayment of local debt shall exceed the amount of funds allocated to that end and specified by the decision on local budget, the Verkhovna Rada of the Autonomous Republic of Crimea, city council shall ensure introduction of respective changes to the decision on local budget.	If the expected total expenditures on servicing and repayment of local debt shall exceed the amount of funds allocated to that end and specified by the decision on local budget, the Verkhovna Rada of the Autonomous Republic of Crimea, city council shall ensure introduction of respective changes to the decision on local budget.
Government debt management	**6. In order to save budget funds, the Ministry of Finance of Ukraine (local financial authority) shall be entitled to effect government (municipal) debt transactions including swaps, issue and repurchase of government (municipal) debt liabilities factoring in marginal amount of government (municipal) debt as of the end of budget period.**	6. In order to save budget funds, the Ministry of Finance of Ukraine (local financial authority) shall be entitled to effect government (municipal) debt transactions including swaps, issue, repurchase and **sale** of government (municipal) debt liabilities factoring in marginal amount of government (municipal) debt as of the end of budget period.
	6. In order to manage the debt, the Ministry of Finance of Ukraine (local financial authority) shall be entitled to effect government (municipal) debt transactions including swaps, issue, purchase and sale of government (municipal) debt liabilities factoring in marginal amount of government	It is necessary that the Ministry of Finance in order to temporally relieve peak pressure related to debt repayment could transfer part of these payments for the next period by swaps. However, such transactions are not always associated with saving of budget funds in terms of arithmetic. Considering the above, it is expedient to specify the objective

	(municipal) debt as of the end of budget period.	of debt management transactions pursuant to the definition in the proposed wording.
	7. The Ministry of Finance shall be entitled to place on a competitive basis funds of the Single Treasury Account and funds of the state budget on currency accounts by entering into agreements on temporary purchase (sale) of government securities with their further renewal before the year-end in the manner specified by the Cabinet of Ministers of Ukraine.	**7. The Minister of Finance** shall be entitled to place on a competitive basis **temporally free funds** of the Single Treasury Account and funds of the state budget on currency accounts by entering into agreements on temporary purchase (sale) of government securities with their further renewal before the year-end in the manner specified by the Cabinet of Ministers of Ukraine. **Head of the local financial authority shall be entitled under instructions of the relevant local council to place on a competitive basis temporally free funds of local budgets on deposits during the current budget period in the manner specified by the Cabinet of Ministers of Ukraine.**
Article 17. Guarantees on meeting debt obligations	**Article 17.** Guarantees on meeting debt obligations	**Article 17.** Guarantees on meeting debt obligations
Article 17. Assuming contingent obligations	**Article 17.** Assuming contingent obligations.	In connection with the different language of paragraph 1 of this Article, its name needs to be changed.
1. The Cabinet of Ministers of Ukraine represented by Minister of Finance, the Council of Ministers of the Autonomous Republic of Crimea represented by Minister of Finance of the Autonomous Republic of Crimea and local councils	1. The Cabinet of Ministers of Ukraine represented by Minister of Finance may issue guarantees regarding fulfillment of debt obligations by the subject only within the scope of authority established by the Law on State Budget of Ukraine or	1. The Cabinet of Ministers of Ukraine represented by Minister of Finance may issue guarantees regarding fulfillment of debt obligations by the subject only within the scope of authority established by the Law on State Budget of Ukraine or resolution on

represented by head of their executive bodies may issue guarantees regarding fulfillment of debt obligations by the subject only within the scope of authority established by the Law on State Budget of Ukraine or resolution on local budget.	resolution on local budget.	local budget.
	1. The Cabinet of Ministers of Ukraine represented by Minister of Finance shall issue state guarantees to secure full or partial fulfillment of debt obligations of business subjects – residents of Ukraine, assume obligations within the framework of public-private partnership regarding payment for commissioned infrastructure objects only within the scope of authority stipulated by the Law of Ukraine on State Budget of Ukraine.	See comment to subparagraph 57 of paragraph 1 of Article 2
	2. Local guarantees may be issued by resolution of the Verkhovna Rada of the Autonomous Republic of Crimea, relevant city council (if approved by at least three-fourth of the total number of relevant council people's deputies) to secure full or partial fulfillment of debt obligations of business subjects in the utilities sector of the economy located in the territory of the Autonomous Republic of Crimea, a relevant city, and implement investment programs (projects) in this territory intended to develop utilities infrastructure or implement resource-saving technologies.	2. Local guarantees may be issued by resolution of the Autonomous Republic of Crimea represented by the Verkhovna Rada of the Autonomous Republic of Crimea, a territorial community of a city represented by the relevant city council ((if approved by at least three-fourth of the total number of relevant council people's deputies) to secure full or partial fulfillment of debt obligations of business subjects in the utilities sector of the economy located in the territory of the Autonomous Republic of Crimea, a relevant city, and implement investment programs (projects) in this territory intended to develop utilities infrastructure or implement resource-saving technologies.
	2. A resolution to issue a local guarantee, assume obligations within the framework of	In accordance with legislation of Ukraine local government is carried out by territorial

	public-private partnership to pay for commissioned infrastructure objects shall be taken by the Verkhovna Rada of the Autonomous Republic of Crimea, the relevant city council by at least three-fourth of the total number of relevant council people's deputies. Local guarantees shall be issued to secure full or partial fulfillment of debt obligations of business subjects in the utilities sector of the economy located in the territory of the Autonomous Republic of Crimea, a relevant city, and implement investment programs (projects) in this territory intended to develop utilities infrastructure or implement resource-saving technologies.	communities both directly and through local councils and their executive bodies. Therefore the Autonomous Republic of Crimea and territorial communities are primary subjects of law to assume obligations and not their authorities.
3. Guarantees shall be paid for, issued for a specified term, shall be secured by property and counter guarantees received from other subjects.	3. Guarantees shall be paid for, issued for a specified term, shall be secured by property and counter guarantees received from other subjects. 3. Guarantees shall be paid for, issued for a specified term, the fulfillment of obligations to be secured by property.	3. Guarantees shall be paid for, issued for a specified term, shall be secured by property and counter guarantees received from other subjects. Counter guarantees are one of the ways to secure the fulfillment of obligations. The requirement to provide those together with property security is a duplication of efforts and would not result in eliminating the risk of budget costs to fulfill guarantee obligations.
	4. Guarantees shall not be issued to secure debt obligations of business subjects, if the source of repaying over 50 per cent of their amount is envisaged to be funds of the state (local) budget. **5. Business subjects in whose regard the decision is made to provide credits**	4. Guarantees shall not be issued to secure debt obligations of business subjects, if the source of repaying over 50 per cent of their amount is envisaged to be funds of the state (local) budget. 5. Business subjects in whose regard the decision is made to provide credits (loans)

	(loans) attracted by the state or government (local) guarantees shall provide counter guarantees, irrevocable and unconditional, of the banks that have been observing obligatory economic standards established by the National Bank of Ukraine over the past three years, or provide other proper security and pay a fee to the State Budget of Ukraine (relevant local budget) for their receipt in the amount established by the Cabinet of Ministers of Ukraine (the Verkhovna Rada of the Autonomous Republic of Crimea or a city council).	attracted by the state or government (local) guarantees shall provide counter guarantees, irrevocable and unconditional, of the banks that have been observing obligatory economic standards established by the National Bank of Ukraine over the past three years, or provide other proper security and pay a fee to the State Budget of Ukraine (relevant local budget) for their receipt in the amount established by the Cabinet of Ministers of Ukraine (the Verkhovna Rada of the Autonomous Republic of Crimea or a city council).
6. Payments related to fulfilling guarantee obligations shall be considered debt-related payments.	6. Payments related to fulfilling guarantee obligations of the **state (relevant territorial community) shall be made pursuant to relevant agreements irrespective of the amount allocated for this purpose in the Law on State Budget of Ukraine (local budget resolution) in accordance with the same procedure as stipulated by part five of Article 16 of this Code**.	6. Payments related to fulfilling guarantee obligations of the state (relevant territorial community) shall be made pursuant to relevant agreements irrespective of the amount allocated for this purpose in the Law on State Budget of Ukraine (local budget resolution) in accordance with the same procedure as stipulated by part five of Article 16 of this Code.
4. In case if legal entities fail to fulfil their liabilities dealing with repayment or servicing of credits provided on a repayment basis raised or guaranteed by the State, other liabilities guaranteed by the State, and collection of debts owed to the State Budget of Ukraine related to loans provided to enterprises and organizations from the State budget, loans provided at the expense of funds raised or guaranteed by the	**7. In case the state (territorial community) fulfills its guarantee obligations to creditors by making payments at the cost of state (local) budget funds or by entering with such creditors into agreements on restructuring the amounts, which repayment is guaranteed, the business subjects whose obligations are guaranteed, from the moment of such fulfillment, shall have indebtedness to the state (territorial community) for credits**	7. In case the state (territorial community) fulfills its guarantee obligations to creditors by making payments at the cost of state (local) budget funds or by entering with such creditors into agreements on restructuring the amounts, which repayment is guaranteed, the business subjects whose obligations are guaranteed, from the moment of such fulfillment, shall have **overdue** indebtedness to the state (territorial community) for credits (loans) attracted against government (local) guarantees in the amount of actual

State, and fees for use of these loans, revenue collection units shall apply the mechanism for collecting these debts based on the procedures provided in the law for collecting overdue taxes and non-tax payments, including repayment of such debts at the expense of debtors' property.	**(loans) attracted against government (local) guarantees in the amount of actual state (local) budget expenditures and/ or such restructured amounts, and the state (territorial community) shall acquire creditor rights and the right to demand repayment of the debt from such business subjects in accordance with the procedure stipulated by law, if such rights were not stipulated by the relevant agreements.**	state (local) budget expenditures and/ or such restructured amounts, and the state (territorial community) shall acquire creditor rights and the right to demand repayment of the debt from such business subjects in accordance with the procedure stipulated by law, if such rights were not stipulated by the relevant agreements.
	If an agreement with the business subject, whose obligations are guaranteed by the state (territorial community) stipulates such business subject's obligations to repay and service credits (loans) attracted by the state (territorial community), non-fulfillment or improper fulfillment of such obligations under the agreement entails the vesting in the state (territorial community) of the right to recover overdue indebtedness in full, irrespective of the state of government's (territorial community's) fulfillment of obligations under such loans.	**If an agreement between the Cabinet of Ministers of Ukraine (the Council of Ministers of the Autonomous Republic of Crimea, local state administrations) and the business subject** stipulates such business subject's obligations to repay and service credits (loans) attracted by the state (territorial community), non-fulfillment or improper fulfillment of such obligations under the agreement entails the vesting in the state (territorial community) of the right to recover overdue indebtedness in full, irrespective of the state of government's (territorial community's) fulfillment of obligations under such loans.
	8. Business subject's overdue indebtedness to the state (territorial community) under a credit (loan) issued by the state and/or against government (local) guarantee shall be recovered from such business subject by state tax service bodies that are the bodies to recover such indebtedness together with the fine in accordance with the procedure stipulated by the law on recovering not timely paid	8. Business subject's overdue indebtedness to the state (territorial community) under a credit (loan) issued by the state and/or against government (local) guarantee as well **as under a budget loan** shall be recovered from such business subject by state tax service bodies that are the bodies to recover such indebtedness together with the fine in accordance with the procedure stipulated by the law on

taxes and non-tax payments including repayment of such indebtedness at the cost of such business subject's property.	recovering not timely paid taxes and non-tax payments, including repayment of such indebtedness at the cost of such business subject's property.
Statute of limitations shall not cover claims to repay such business subject's indebtedness to the state (territorial community).	Statute of limitations shall not cover claims to repay such business subject's indebtedness to the state (territorial community).
9. The Ministry of Finance of Ukraine shall be entitled to involve business subjects in representing state authorities before courts in cases related to recovering the indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as under budget loans including bankruptcy proceedings, which recovery was refused to tax service bodies.	9. The Ministry of Finance of Ukraine shall be entitled to involve business subjects in representing state authorities before courts in cases related to recovering the indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as under budget loans including bankruptcy proceedings, which recovery was refused to tax service bodies.
The Ministry of Finance of Ukraine shall pay for such services of business subjects within the approved budget allocations at the cost of state budget revenues resulting from recovery of overdue indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as under budget loans not exceeding 5 per cent of such actual revenues.	The Ministry of Finance of Ukraine shall pay for such services of business subjects within the approved budget allocations at the cost of state budget revenues resulting from recovery of overdue indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as under budget loans not exceeding 5 per cent of such actual revenues.
10. The Ministry of Finance of Ukraine shall be entitled to sell, at public auctions, rights of demand to repay more than three-year overdue indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as under budget loans including that formalized by promissory	10. The Ministry of Finance of Ukraine shall be entitled to sell, at public auctions, rights of demand to repay more than three-year overdue indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as under budget loans including that formalized by promissory notes in the name of Ministry

notes in the name of Ministry of Finance of Ukraine.	of Finance of Ukraine.
Promissory notes shall be issued in the currency of credits (loans) attracted by the state or against government guarantee as well as budget loans, under which resident business subjects have indebtedness to the state.	Promissory notes shall be issued in the currency of credits (loans) attracted by the state or against government guarantee as well as budget loans, under which resident business subjects have indebtedness to the state.
In cases where the state took all possible measures to recover overdue indebtedness, it shall be allowed to reduce the starting sale price of the right of demand down to 50 per cent of their par value.	In cases where **during three years from the moment of indebtedness became overdue** all possible measures were taken to recover overdue indebtedness, s**tipulated by parts 8 and 9 of this Article,** it shall be allowed to reduce the starting sale price of the **balance** of the right of demand down to 50 per cent of their par value.
The amount of fine accrued as a result of borrower's not fulfilling obligations under credits (loans) attracted by the state or against government guarantee as well as budget loans for the amount formalized by promissory notes shall be written off.	The amount of fine accrued as a result of borrower's not fulfilling obligations under credits (loans) attracted by the state or against government guarantee as well as budget loans for the amount formalized by promissory notes shall be written off.
The Ministry of Finance of Ukraine shall sell such rights of demand in accordance with the procedure stipulated by the Cabinet of Ministers of Ukraine.	The Ministry of Finance of Ukraine shall sell such rights of demand in accordance with the procedure stipulated by the Cabinet of Ministers of Ukraine. **The Verkhovna Rada of the Autonomous Republic of Crimea, oblast and city councils may establish the procedure for selling rights of demand to repay more than three-year overdue**

	indebtedness under credits (loans) attracted against a local guarantee and relevant budget loans with due regard to requirements of part ten of this Article
11. It shall be prohibited to restructure business subjects' indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as budget loans, except for arranging payment by installments during receivership of such business subject with the participation of the investor assuming joint obligations to repay such indebtedness within three years. The amount of fine accrued as a result of borrower's non-fulfillment of such obligations to the restructured amount of indebtedness shall be written off.	11. It shall be prohibited to restructure business subjects' indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as budget loans, except for arranging payment by installments during receivership of such business subject with the participation of the investor assuming joint obligations to repay such indebtedness within three years. The amount of fine accrued as a result of borrower's non-fulfillment of such obligations to the restructured amount of indebtedness shall be written off.
12. It shall be prohibited to write off business subjects' indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as budget loans, except for indebtedness of business subjects recognized bankrupt in accordance with the established procedure, the claims to repay whose indebtedness have not been satisfied due to insufficiency of their assets.	12. It shall be prohibited to write off business subjects' indebtedness to the state under credits (loans) attracted by the state or against government guarantee as well as budget loans, except for indebtedness of business subjects recognized bankrupt in accordance with the established procedure, the claims to repay whose indebtedness have not been satisfied due to insufficiency of their assets.
13. During the term of the local guarantee agreement, the Verkhovna Rada of the Autonomous Republic of Crimea and city councils stipulate in local budget resolutions funds to fulfill	13. During the term of the local guarantee agreement, the Verkhovna Rada of the Autonomous Republic of Crimea and city councils stipulate in local budget resolutions funds to fulfill guarantee obligations

	guarantee obligations regarding payments becoming due in the relevant budget period. Such funds are stipulated: **in respect of guarantee-secured agreements under which a guarantee accident already occurred, in amounts equal to the amount of payments under such agreements;** **in respect of other guarantee-secured agreements – no less than 50 per cent of amounts payable under these agreements.**	regarding payments becoming due in the relevant budget period. Such funds are stipulated: in respect of guarantee-secured agreements under which a guarantee accident already occurred, in amounts equal to the amount of payments under such agreements; in respect of other guarantee-secured agreements – no less than 50 per cent of amounts payable under these agreements.
Article 18. Article 18. Limitations on amounts of debt and guarantees	**Article 18.** Article 18. Limitations on amounts of debt and guarantees	**Article 18.** Article 18. Limitations on amounts of debt and guarantees
	Article 18. The maximum amount debt	See comment to subparagraph 57 of paragraph 1 of Article 2
1. The maximum amount of domestic and foreign State debts, debt of the Autonomous Republic of Crimea, and debts of local self-government, and the maximum amounts of guarantees shall be established for each budget period, respectively, by the State Budget Law or local budget resolution.	1. The maximum amount of state (local) debt, the maximum amounts of state (local) guarantees shall be established for each budget period by the State Budget Law (local budget resolution).	1. The maximum amount of state (local) debt, the maximum amounts of state (local) guarantees shall be established for each budget period by the State Budget Law (local budget resolution).
2. The principal amount of the State debt may not exceed 60 percent of the actual annual Gross Domestic Product of Ukraine.	2. The total amount of state and **local debt guaranteed by the state and the Autonomous Republic of Crimea, territorial communities of cities** as of the end of the budget period may not exceed 60 per cent of the annual nominal amount of the gross domestic product of Ukraine.	2. The total amount of state and local debt guaranteed by the state and the Autonomous Republic of Crimea, territorial communities of cities as of the end of the budget period may not exceed 60 per cent of the annual nominal amount of the gross domestic product of Ukraine. See comment to subparagraph 57of paragraph 1 of Article 2
	2. The total amount of state and **local debt, including contigent**, as of the end of	

	budget period must not exceed 60 per cent of the annual nominal amount of the gross domestic product of Ukraine.	
	The total amount of local debt and that guaranteed by the Autonomous Republic of Crimea or a territorial community of a city, as of the end of budget period, must not exceed 150 per cent of the average annual forecast amount of development budget revenues (without regard to domestic and external borrowings) determined by the forecast of the local budget for the following three budget periods in accordance with part four of Article 71 of this Code.	The total amount of local debt and that guaranteed by the Autonomous Republic of Crimea or a territorial community of a city, as of the end of budget period, must not exceed **200 per cent** of the average annual forecast amount of development budget revenues (without regard to domestic and external borrowings) determined by the forecast of the local budget for the following three budget periods in accordance with part four of Article 71 of this Code.
	The total amount of local debt, including contigent, as of the end of the budget period, shall not exceed 150 per cent of the average annual amount of revenues to the development budget (without regard to the amount of domestic and external borrowings), during the past three years preceding the reporting year.	An important debt management tool is establishing caps. To avoid a subjective approach, the basis used for determining the caps must be actual and not forecast revenues.
3. In case of exceeding the maximum amount stipulated by passage one of part two of this Article, the Cabinet of Ministers of Ukraine shall take measures to reconcile this amount with the provisions of this Code.	3. In case of exceeding the maximum amount stipulated by passage one of part two of this Article, the Cabinet of Ministers of Ukraine shall take measures to reconcile this amount with the provisions of this Code.	3. In case of exceeding the maximum amount stipulated by passage one of part two of this Article, the Cabinet of Ministers of Ukraine shall take measures to reconcile this amount with the provisions of this Code.
	In case of exceeding the maximum amount stipulated by passage two of part two of this Article, the Verkhovna Rada of the Autonomous Republic of Crimea, the city council shall take measures to	In case of exceeding the maximum amount stipulated by passage two of part two of this Article, **as of 1 January 2009**, the Verkhovna Rada of the Autonomous Republic of Crimea, the city council shall

	bring this amount into compliance with provisions of this Code.	take measures to bring this amount into compliance with provisions of this Code **during the next three years.**
Article 25. Intercepting budget funds 1. The State Treasury of Ukraine shall intercept funds from accounts in which State Budget of Ukraine and local budget funds are accounted for pursuant to a decision approved by the state body that, in accordance with law, is entitled to apply it.	1. The State Treasury of Ukraine shall intercept funds from accounts in which State Budget of Ukraine and local budget funds are accounted for pursuant to a decision approved by the state body that, in accordance with law, is entitled to apply it.	1. The State Treasury of Ukraine shall intercept funds from accounts in which State Budget of Ukraine and local budget funds are accounted for pursuant to a decision approved by the state body that, in accordance with law, is entitled to apply it.
	1. The State Treasury of Ukraine shall intercept funds from accounts in which State Budget of Ukraine and local budget funds are accounted for pursuant to a decision approved by the state body that, in accordance with law, is entitled to apply it, or within development budget revenues, upon demand of creditor or creditors under an agreement on local borrowing, local guarantee in case of not fulfilling obligations by the Autonomous Republic of Crimea, a territorial community of a city, if the relevant agreement stipulates such possibility.	The possibility of intercepting local budget funds in case of borrower's or guarantor's not fulfilling obligations would serve as an additional means for securing the fulfillment of obligations and, therefore, increase creditor trust and accordingly reduce the cost of borrowing.
2. In case of intercepting funds in registration accounts of budget institutions that caused relevant obligations, within one month after such transaction, budget funds administrator shall put to order their obligations with regard to budget intercepts and bring them into compliance with budget allocations for the relevant budget period. In this case, intercepts from accounts, in which State Budget of Ukraine and local budget funds are accounted for,		

for the account of repaying obligations of such budget institutions shall not be allowed.		
Article 71. Local budgets development budget 1. Local budgets development budget revenues include:	**Article 71.** Local budgets development budget 1. Local budgets development budget revenues include:	**Article 71.** Local budgets development budget 1. Local budgets development budget revenues include:
	1) 10 per cent of corporate profit tax (except for profit tax of state, government, municipal enterprises and financial institutions, state holding companies, joint-stock companies, 100% of whose shares are held by the state or local government), which is credited to the budget of the Autonomous Republic of Crimea, oblast budgets and the Sevastopol City budget;	1) 10 per cent of corporate profit tax (except for profit tax of state, government, municipal enterprises and financial institutions, state holding companies, joint-stock companies, 100% of whose shares are held by the state or local government), which is credited to the budget of the Autonomous Republic of Crimea, oblast budgets and the Sevastopol City budget, **except for 3 per cent of this tax (levied in the territory of cities of the Autonomous Republic of Crimea and oblast-import cities as well as associations of villages, settlements and towns that will be created pursuant to local government legislation), which are credited to budgets of these towns and associations;**
	2) receipt of dividends accrued to stocks (shares, participatory shares) of business companies owned by the relevant territorial community;	2) receipt of dividends accrued to stocks (shares, participatory shares) of business companies owned by the relevant territorial community;
1)proceeds from the sale of communally-owned assets, including from sale of land plots used for non-agricultural purposes;	**3)** proceeds from the sale of assets **owned by the Autonomous Republic of Crimea** and communally-owned assets including proceeds from the sale of land plots used for non-agricultural purposes;	3) proceeds from the sale of assets owned by the Autonomous Republic of Crimea and communally-owned assets including proceeds from the sale of land plots used for non-agricultural purposes;

	4) 90 per cent of proceeds from the sale of land plots used for non-agricultural purposes owned by the state before delineating state and communally-owned land (except for state-owned non-agricultural land, on which objects are located that are subject to privatization);	4) 90 per cent of proceeds from the sale of land plots used for non-agricultural purposes owned by the state before delineating state and communally-owned land (except for state-owned non-agricultural land, on which objects are located that are subject to privatization), **out of those from the sale of land plots located in the territory of the Autonomous Republic of Crimea, 35 per cent – to the Budget of the Autonomous Republic of Crimea and 55 per cent to village, settlement, city budgets of the Autonomous Republic of Crimea;**
	5) 10 per cent of proceeds from the sale of state-owned non-agricultural land plots before delineating state- and communally-owned land, on which objects are located that are subject to privatization, out of those 100 per cent for budgets of the cities of Kyiv and Sevastopol; 25 per cent for the budget of the Autonomous Republic of Crimea and oblast budgets; 75 per cent for cities republican and oblast import of the Autonomous Republic of Crimea; 15 per cent for district budget; 60 per cent for budgets of villages, settlements, towns and their associations;	5) 10 per cent of proceeds from the sale of state-owned non-agricultural land plots before delineating state- and communally-owned land, on which objects are located that are subject to privatization, out of those 100 per cent for budgets of the cities of Kyiv and Sevastopol; 25 per cent for the budget of the Autonomous Republic of Crimea and oblast budgets; 75 per cent for cities republican and oblast import of the Autonomous Republic of Crimea; 15 per cent for district budget; 60 per cent for budgets of villages, settlements, towns and their associations;
6) subventions provided from other budgets for implementation of investment projects.	6) subventions provided from other budgets for implementation of investment **programs** (projects);	6) subventions provided from other budgets for implementation of investment programs (projects);
2) receipt of dividends paid on the territorial community's stocks (shares, participatory shares) of business companies owned by the relevant territorial		

community;		
3) proceeds from repayment of loans provided from the relevant budget prior to the enactment of this Code and interest paid for use of these loans;	7) proceeds from repayment of loans provided from the relevant budget prior to the enactment of this Code and interest paid for use of these loans; 7) proceeds from repayment of loans and interest paid for use of these loans;	7) proceeds from repayment of loans provided from the relevant budget prior to the enactment of this Code and interest paid for use of these loans; See comment to subparagraph 3 of paragraph 2 of Article 71
5) borrowing made consistent with procedures provided for under this Code and other laws of Ukraine (except for cases provided under Article 73 of this Code);	8) borrowing made consistent with procedures provided for under this Code and other laws of Ukraine;	8) borrowing made consistent with procedures provided for under this Code and other laws of Ukraine;
4) resources transferred from the other part of the local budget pursuant to the decision of the relevant council.	9) resources transferred from the other part of the local budget pursuant to the decision of the relevant council.	9) resources transferred from the other part of the local budget pursuant to the decision of the relevant council.
2. Expenditures of local budgets development budget include:	2. Expenditures of local budgets development budget include:	2. Expenditures of local budgets development budget include:
1) repayment of the principal of local debt of the Autonomous Republic of Crimea and local governments (except for the debt arising as provided under Article 73 of this Code);	1) repayment of the principal of local debt;	1) repayment of the principal of local debt;
2) capital investment;	2) capital **expenditures including capital transfers to state authorities and local governments of other levels;**	2) capital expenditures including capital transfers to state authorities and local governments of other levels, **contributions of authorities of the Autonomous Republic of Crimea and local governments to charger capitals of business entities.**
3) contributions of authorities of the	3) contributions of authorities of the	

Autonomous Republic of Crimea and local governments to charger capitals of business entities	Autonomous Republic of Crimea and local governments to charger capitals of business entities.	
	2) capital expenditures including capital transfers to state authorities and local governments of other levels**, contributions** of authorities **of the Autonomous Republic of Crimea** and local governments **to charger capitals of business entities in the utilities sector of the economy located in the territory of the Autonomous Republic of Crimea, relevant city, loans to such entities.**	To avoid re-allocation of budget funds for the benefit of private business entities, it is advisable to limit contributions of local governments to contributions into charter capital of business entities in the utilities sector of the economy. On the other hand, prohibiting territorial communities from direct lending to business entities in the utilities sector of the economy would reduce the possibilities of territorial communities to discharge their tasks, makes them use the guarantee scheme that increases the end cost of borrowing significantly. Besides it is not logical to allow investing in charter capital of business entities while phohibiting loans to such entities, since a contribution to charter capital is virtually irreversible and lenging means that the provided funding will be repaid.
	3. Capital expenditures of the development budget are used for: social and economic development of regions; implementation of investment programs (projects); capital repairs and reconstruction of social and cultural objects and utilities; construction of gas pipelines and linking settlements to the gas system; construction and purchase of housing for certain categories of citizens in accordance with law; preservation and development of historical and cultural locations of Ukraine and preserves;	3. Capital expenditures of the development budget are used for: social and economic development of regions; implementation of investment programs (projects); capital repairs and reconstruction of social and cultural objects and utilities; construction of gas pipelines and linking settlements to the gas system; construction and purchase of housing for certain categories of citizens in accordance with law; preservation and development of historical and cultural locations of Ukraine and preserves; construction and development

	construction and development of the metro network; purchase of cars for municipal electric transport; development of road economy; purchase of school buses and ambulances; installing computers and IT technologies in educational institutions; other measures related to expanded reproduction.	of the metro network; purchase of cars for municipal electric transport; development of road economy; purchase of school buses and ambulances; installing computers and IT technologies in educational institutions; other measures related to expanded reproduction.
	4. Development budget revenues from corporate profit tax received in accordance with paragraph 1 of part one of this Article are re-allocated between end budgets in accordance with the forecast and program documents of economic and social development of the country and relevant territory with due regard to special features and development priorities of individual settlements in accordance with the procedure stipulated by the Cabinet of Ministers of Ukraine.	4. Development budget revenues from corporate profit tax received in accordance with paragraph 1 of part one of this Article are re-allocated between end budgets in accordance with forecast and program documents of economic and social development of the country and relevant territory with due regard to special features and development priorities of individual settlements in accordance with the procedure stipulated by the Cabinet of Ministers of Ukraine.
3. Development budget of local budgets is a constituent of the special fund of local budgets.	5. Development budget of local budgets is a constituent of the special fund of local budgets.	5. Development budget of local budgets is a constituent of the special fund of local budgets.
	6. Development budget funds are allocated to objects pursuant to resolutions of the relevant council upon approving local budgets and introducing changes thereto. For objects with longer terms than the budget period, forecast indicators of the development budget are also determined for the next three budget periods. Upon approving local budgets for the budget period occurring after the	6. Development budget funds are allocated to objects pursuant to resolutions of the relevant council upon approving local budgets and introducing changes thereto. For objects with longer terms than the budget period, forecast indicators of the development budget are also determined for the next three budget periods. Upon approving local budgets for the budget period occurring after the planned period,

Article 72. Local budget deficit	**planned period, forecast indicators of the development budget broken down by object shall not be reduced.** **Article 72.** Deficit and surplus of local budgets	forecast indicators of the development budget broken down by object shall not be reduced. **Article 72.** Deficit and surplus of local budgets
1. Local budgets may be passed with a deficit of the general fund by introducing changes to local budget resolutions based on results of the annual report on execution of the relevant local budget in the prior budget period only in the amount of the free balance of budget funds.	1. Local budgets may be passed with a deficit only **in the amount of the free balance of budget funds and returning funds from redeeming securities** by introducing changes to local budget resolutions based on results of the annual report on execution of the relevant local budget in the prior budget period. бюджетний період.	1. Local budgets may be passed with a deficit only in the amount of the free balance of budget funds and returning funds from redeeming securities by introducing changes to local budget resolutions based on results of the annual report on execution of the relevant local budget in the prior budget period.
3. Local budgets may be passed with a surplus of the general fund only in the amount of funds used from the general fund of this budget to finance expenditures of the local budgets development budget.	Local budgets may be passed with a surplus of the general fund only in the amount of funds used from the general fund of this budget to finance **expenditures** of the development budget.	Local budgets may be passed with a surplus of the general fund only in the amount of funds used from the general fund of this budget to finance expenditures of the development budget.
2. Budget of the Autonomous Republic of Crimea and local budgets can be adopted on the special fund with deficit in part of development budget by the amount of local borrowings and funds transferred from the general fund of the local budgets for the development budget, exclusively by the amount of balance of funds as of the beginning of the budget period (except for own proceeds of the budget institutions) and repayment of funds (through introduction of amendments to the decisions on local budget based on the results of the annual report on execution of	2. Local budgets can be adopted on the special fund with deficit in part of development budget by **the amount of local borrowings and funds transferred from the general fund of the local budgets for the development budget, exclusively by the amount of balance of funds as of the beginning of the budget period (except for own proceeds of the budget institutions) and repayment of securities (through introduction of amendments to the decisions on local budget based on the results of the annual report on execution of**	2. Local budgets can be adopted on the special fund with deficit in part of development budget by the amount of local borrowings and funds transferred from the general fund of the local budgets for the development budget, exclusively by the amount of balance of funds as of the beginning of the budget period (except for own proceeds of the budget institutions) and repayment of funds from the presentation of securities (through introduction of amendments to the decisions on local budget based on results of the annual report on execution of the local budget for the previous budget period.

	on results of the local budget for the previous budget execution period.	
Article 74. Local Borrowings 1. Borrowing by local budgets shall be targeted and subject to obligatory repayment. Borrowing by respective budgets may be undertaken only for financing the development budget, except for the cases provided under Article 73 of this Code.	**Article 74.** Local Borrowings 1. **Local borrowings shall be made for financing of the development budget in the budget of the Autonomous Republic of Crimea and local budgets, and shall be used for creation of the strategic objects of long-term use or objects which ensure fulfillment of tasks of the Verkhovna Rada of the Autonomous Republic of Crimea and local councils, aimed at satisfaction of interests of the citizens of the Autonomous Republic of Crimea and territorial communities of the cities.** **2. Volume and terms for making local borrowings shall be approved by the Ministry of Finance of Ukraine according to the procedure established by it.** **3. The Ministry of Finance of Ukraine shall maintain registration of local borrowings and local guarantees. All agreements on making local borrowings, agreements on local guarantee, on compensation of local budget expenses, as well as changes of material conditions of such agreements shall require registration in the Registry of Local Borrowings and Local Guarantees.** **4. Agreements on local borrowings may not contain any provisions on repayment of local debt through offset of mutual claims and on early repayment of local debt on request of the creditor or**	**Article 74.** Local Borrowings 1. Local borrowings shall be made for financing of the development budget in the budget of the Autonomous Republic of Crimea and local budgets, and shall be used for creation of the strategic objects of long-term use or objects which ensure fulfillment of tasks of the Verkhovna Rada of the Autonomous Republic of Crimea and local councils, aimed at satisfaction of interests of the citizens of the Autonomous Republic of Crimea and territorial communities of the cities. 2. Volume and terms for making local borrowings shall be approved by the Ministry of Finance of Ukraine according to the procedure established by it. 3. The Ministry of Finance of Ukraine shall maintain registration of local borrowings and local guarantees. All agreements on making local borrowings, agreements on local guarantee, on compensation of local budget expenses, as well as changes of material conditions of such agreements shall require registration in the Registry of Local Borrowings and Local Guarantees. 4. Agreements on local borrowings may not contain any provisions on repayment of local debt through offset of mutual claims and on early repayment of local debt on request of the creditor or creditors.

	creditors.	
2. The State shall not be liable on obligations on local budgets' borrowings.	2. The State shall not be liable on obligations **on local borrowings**.	2. The State shall not be liable on obligations on local borrowings.
3. Expenses for debt servicing shall be made at the expense of the general fund of the budget.	6. Expenses for **local** debt servicing shall be made at the expense of the general fund of the **local** budget.	6. Expenses for local debt servicing shall be made at the expense of the general fund of the local budget.
4. Annual spending for debt servicing cannot exceed 10 percent of the general fund of the relevant local budget in any budget period in which the debt is to be serviced.	7. Annual spending **of the local budget** for **local** debt servicing cannot exceed 10 percent of the general fund of the relevant local budget in any budget period in which the **local** debt is to be serviced.	7. Annual spending of the local budget for local debt servicing cannot exceed 10 percent of the general fund of the relevant local budget in any budget period in which the local debt is to be serviced.
5. If in the process of repayment of debt principal and payments on its servicing established by the contract between the creditor and the borrower, the contract schedule is violated due to the borrower's fault, the relevant local council shall have no right to make any new borrowings for the next 5 years.	8. If in the process of repayment of the **local** debt principal and payments on its servicing established by the contract between the creditor and the borrower, the contract schedule is violated due to the borrower's fault, the relevant local council shall have no right to make any new **local** borrowings for the next 5 years.	8. If in the process of repayment of the local debt principal and payments on its servicing established by the contract between the creditor and the borrower, the contract schedule is violated due to the borrower's fault, the relevant local council shall have no right to make any new local borrowings for the next 5 years.
	8. If in the process of repayment of the **local** debt principal and payments on its servicing established by the contract between the creditor and the borrower, the contract schedule is violated due to the borrower's fault, the relevant local council shall have no right to make **local** borrowings leading to increase in amount of local debt at the year end for the next 5 years.	It is expedient to establish in case of violation a prohibition only to make new borrowings, preserving the right to make borrowings for debt refinancing which could become an important instrument for improvement of the borrower's solvency.
6. Procedure for making borrowings to local budgets shall be established by the Cabinet of Ministers of Ukraine according to the conditions defined under this Code.	9. Procedure for making **local** borrowings shall be established by the Cabinet of Ministers of Ukraine according to the conditions defined under this Code.	Procedure for making local borrowings, **including those for repayment of existing debt liabilities**, shall be established by the Cabinet of Ministers of Ukraine according to the conditions defined under this Code.

	10. The Verkhovna Rada of the Autonomous Republic of Crimea and local councils can make numerous borrowings to repay existing debt liabilities according to the procedure established by the Cabinet of Ministers of Ukraine.	
A**rticle 79.** Peculiarities of Approval and Execution of Local Budgets in Case of Their Untimely Adoption	A**rticle 79.** Peculiarities of Approval and Execution of Local Budgets in Case of Their Untimely Adoption	A**rticle 79.** Peculiarities of Approval and Execution of Local Budgets in Case of Their Untimely Adoption
1. If by the beginning of a new budget period the relevant decision on local budget is not adopted, the Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and executive bodies of local councils shall be entitled to make spending from the relevant budgets only for the purposes specified in the local budget decision for the previous budget period. Therewith, total monthly spending cannot exceed 1/12 of the amount of spending defined by the local council budget decision for the previous budget period, except for cases provided for under part 4 of Article 15 and part 4 of Article 23 of this Code. Capital expenditures shall be prohibited until the local budget decision for the current budget period is adopted.	If by the beginning of a new budget period the relevant decision on local budget is not adopted, the Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and executive bodies of local councils shall be entitled to make spending from the relevant budgets only for the purposes specified in the **draft** local budget decision **approved by the Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and executive bodies of local councils and submitted for consideration of the Verkhovna Rada of the Autonomous Republic of Crimea or the relevant local council, with taking into account** the cases provided for under part 4 of Article **16** and part 4 of Article 23 of this Code. Therewith, monthly **appropriations** cannot exceed 1/12 of the amount of spending defined by the local council budget decision for the previous budget period. Until the local budget decision for the current budget period is adopted, it shall be prohibited to make capital expenditures **and to give**	If by the beginning of a new budget period the relevant decision on local budget is not adopted, the Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and executive bodies of local councils shall be entitled to make spending from the relevant budgets only for the purposes specified **in the local budget decision for the previous budget period** and simultaneously envisaged in the draft local budget decision **for the next budget period** approved by the Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and executive bodies of local councils and submitted for consideration of the Verkhovna Rada of the Autonomous Republic of Crimea or the relevant local. Therewith, monthly appropriations cannot exceed 1/12 of the amount of spending defined by the local council budget decision for the previous budget period **(except the cases envisaged by part 5 of Article 16 and part 4 of Article 23 of this Code, as well as items 5 and 6, part 2, Article 46 of this Code)**.

	loans from the budget (except the cases connected with allocation of funds from reserve fund of the relevant budget), as well as make local borrowings and provide local guarantees.	Until the local budget decision for the current budget period is adopted, it shall be prohibited to make capital expenditures and to give loans from the budget (except the cases connected with allocation of funds from reserve fund of the relevant budget), as well as make local borrowings and provide local guarantees.
Article 116. The Concept of a Budget Offence 1. A violation by any participant of the budget process of procedures established under this Code and other normative and legal acts with respect to compilation, consideration, approval, amendment, execution, or reporting on execution of the budget shall be recognized as a budget offence.	**Article 116.** The Concept of a Budget Offence 1. A violation by any participant of the budget process of procedures established under this Code and other normative and legal acts with respect to compilation, consideration, approval, amendment, execution, **and** reporting on execution of the budget shall be recognized as a budget offence.	**Article 116.** The Concept of Offence **of the Budget Legislation** 1. A violation by any participant of the budget process of procedures established under this Code and other normative and legal acts with respect to compilation, consideration, approval, amendment, execution, and reporting on execution of the budget shall be recognized as an **offence of the budget legislation**.
	2. The following shall be recognized as budget offences: **…..**	2. The following shall be recognized as **offence of the budget legislation**:
	3) on the stage of budget execution, including introduction of amendments to the State Budget of Ukraine (decision on local budget): **c) non-compliance with the procedure for carrying out transactions in budget funds:** **…..**	3) on the stage of budget execution, including introduction of amendments to the State Budget of Ukraine (decision on local budget): c) non-compliance with the procedure for carrying out transactions in budget funds: …..
	non-compliance with the terms for provision of government (local) guarantees with respect to fulfillment of debt liabilities;	non-compliance with the terms for provision of government (local) guarantees with respect to fulfillment of debt liabilities;
	non-compliance with the procedure	non-compliance with the procedure and

and terms for making government (local) borrowings;	terms for making government (local) borrowings;
e) other budget offences on the stage of budget execution, including:	e) other **offences of the budget legislation** on the stage of budget execution, including:
….	….
adoption of the decisions which caused exceeding of maximum amounts of the government (local) debt, and provision of government (local) guarantees with respect to fulfillment of debt liabilities;	adoption of the decisions which caused exceeding of maximum amounts of the government (local) debt, and provision of government (local) guarantees with respect to fulfillment of debt liabilities;
Violation of requirements of the budget legislation with respect to adoption of local budgets with deficit (surplus);	Violation of requirements of the budget legislation with respect to adoption of local budgets with deficit (surplus);
…	…
3. To add the following part four to Article 67 of the Business Code of Ukraine (Newsletter of the Verkhovna Rada of Ukraine, 2003, # 18, 19-20, 21-22, p. 144):	3. To add the following part four to Article 67 of the Business Code of Ukraine (Newsletter of the Verkhovna Rada of Ukraine, 2003, # 18, 19-20, 21-22, p. 144):
«4. Government enterprises, including business associations in the statutory fund of which over 50 percent of shares is owned by the state, shall make domestic long-term (over one year) and foreign borrowings, provide guarantees or be a guarantor upon approval of the Ministry of Finance of Ukraine, domestic short-term borrowings (up to one year) – upon approval of the relevant bodies of central executive power in whose sphere of activity they are.»	«4. Government enterprises, including business associations (except for the banks) in the statutory fund of which over 50 percent of shares is owned by the state, shall make domestic long-term (over one year) and foreign borrowings, provide guarantees or be a guarantor on such appropriations upon approval of the Ministry of Finance of Ukraine, shall make domestic short-term borrowings (up to one year), provide guarantees or be a guarantor on such appropriations – upon approval of the relevant bodies of central executive power in whose sphere of activity they are. The procedure for such approvals shall be

established by the Cabinet of Ministers of Ukraine.»

ATTACHMENT 16

ADDRESS

by participants of the round table "Ukrainian Cities Energy-Saving Problems and Their Solutions in the Global Financial and Economic Crisis"

to the President of Ukraine, the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine and all political groups to take urgent measures to stimulate investment projects in the field of energy-saving, in the budget sphere and protecting the environment in Ukraine

Effective functioning of the communal energy sector is one of the pressing issues of today. The lack of investments in this field in Ukrainian cities caused a deterioration of the level and quality of services, significant worsening of the technical conditions of fixed assets, increasing hazards of facilities, increasing costs per unit of production (service), and growing direct and indirect losses of material and energy resources. According to calculations performed by the Ministry of Housing and Utilities of Ukraine, to reform the housing and communal sector approximately UAH 100 billion is required and by EU experts' estimates, UAH 200 billion.

Under such conditions we, the participants of the round table "Ukrainian Cities Energy-Saving Problems and Their Solutions in the Global Financial and Economic Crisis," address the President of Ukraine, the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine and all political groups with a request to take real steps even today to stimulate energy-saving in the housing and utilities sector and the budget sphere of Ukraine to support and stimulate the implementation of energy-saving projects.

Given the urgency of existing problems, we suggest uniting efforts to take the following urgent measures:

1. Broadening opportunities for local authorities to attract long money to implement projects in the field of energy-saving including those from foreign investors.

Currently local authorities, in particular, those of cities found themselves in a situation where attracting funds in the domestic financial market is virtually impossible. The main reason is that financial institutions do not lend at all or lend under terms and at interest rates that are unacceptable. Besides, the array of instruments tested in the world practice to attract financial resources is not used in Ukraine. To eliminate the said obstacles, it is proposed:

1.1. ***To impose an obligation on bank institutions receiving State Budget funds for capitalization to use at least 5% of the provided amounts to purchase domestic target bonds of local authorities having sufficient creditworthiness.*** Ukraine's 2009 budget allocates UAH 44 billion for bank capitalization (Article 2 of the Law of Ukraine "On Priority Measures to Prevent Negative Consequences of the Financial Crisis and on Introducing Changes to Some Legislative Acts of Ukraine"). Five per cent of this amount (UAH 2.2 billion) is a sufficient amount to purchase municipal bonds, since as of today all cities have attracted only UAH 0.5 (without Kyiv).

1.2. ***To encourage the establishment of a number of financial institutions including a Municipal Borrowing Fund that would have the possibility to attract funding in external markets against sovereign guarantee with their further using exclusively to lend to investment protects of municipalities, in particular, in the field of energy saving.*** Such entities in the form of municipal banks or financial institutions in state, mixed or private ownership exist in most world countries and efficiently lend in the municipal sector remaining rather reliable even in the crisis situation. Currently the Association of Ukrainian Cities together with the USAID have drafted a concept of

creating such institution, and the National *Credit Rating* Agency, an algorithm for assessing reliability and creditworthiness of borrowing cities. The provision of sovereign guarantees and, possibly, part of the charter capital by the state and local governments would allow implementing this project already in the current year.

1.3. ***To use funds of state banks to lend to Ukrainian cities.*** Currently, Oschadbank and Ukreximbank belong to the chosen few who have free financial resources that may be funneled to the real sector of the economy. Moreover, to those banks special fund money of municipal budgets have been transferred from commercial banks, which increases city dependence on these banks. At the same time, commercial bank losses of part of their cash flows reduce their ability and willingness to lend to the municipal sector. In such situation, it seems logical to use part of free resources of Oschadbank and Ukreximbank to finance investment projects in the municipal sector.

1.4. To use part of money of the Stabilization Fund to compensate for losses of local budgets related to servicing the debt that was incurred in connection with attracting debt financing to implement energy-saving projects and finance pilot projects in this field. To this end, money of the Stabilization Fund may be used in the amount of UAH 0.5 billion envisaged for implementing investment projects of social and economic development of regions.

1.5. ***To provide a possibility of attracting foreign investor funding to the development budget to cities with the population exceeding 200 thousand***. Namely, it is proposed to introduce changes to the Budget Code of Ukraine and normative acts of the Government prohibiting cities with less than 800 thousand population to attract external borrowing, which significantly reduces opportunities to cooperate with international financial organizations and other non-resident organizations lending to municipalities on privileged terms.

2. To simplify the mechanism for issuing municipal securities.

In the economic crisis, reviewing the parameters of issued debt obligations (interest rate, par, and maturity) becomes an objective reality. For example, the interest rate may increase after the moment of its approval by the city council. In such case, in accordance with requirements of current legislation cities have to undergo another procedure for registering in the Ministry of Finance of Ukraine and the Securities and Stock Market State Commission. This would entail a loss of time and money. To avoid such problems, the following is proposed:

2.1. To broaden opportunities of municipalities to enter the borrowing market by giving them the right to place bonds which entitle their holders to receive interest income and also may be placed at below par (public placement at a stock exchange).

2.2. ***To stipulate that the term of placing a municipal bond is not limited to one budget period.*** Current legislation of Ukraine prohibits placing municipal bond in the year following the year when such decision was approved by the city council. As a result, local authorities incur additional costs to register the bond again, which is inadmissible in a crisis situation. To prevent this situation, it is proposed to introduce changes to the Budget Code of Ukraine stipulating a special procedure for middle-term planning (3-5 years) of revenues and expenditures of the development budget. Namely, projects that may actually be implemented by local governments are mostly planned for a significant period of time; in particular, it may be five and more years. If such project is financed by loan funds, the local council must provide for their receipt within one budget period, even though these resources will be spent during several following budget periods. Introducing middle-term planning of budget revenues and expenditures would allow

using a more flexible schedule of attracting loan funds and avoiding extra costs to service the local debt. Besides, given the unfavorable situation in the capital markets, a longer term of placing municipal bonds provides the opportunity to borrow planned amounts under acceptable terms.

3. To simplify the procedures for investment projects in the field of energy saving undergoing approval and implementation.

3.1. ***To simplify the procedure for attracting domestic loan funds to the development budget of local budgets.*** To this end, it is necessary to introduce changes to the Regulation on procurement of goods, works and services with state funds approved by CMU Regulation of 17.10.2008 No. 921. Meaning introducing changes to paragraph 7 stipulating that the Regulation does not cover the procurement of services (including that from international financial organizations) related to municipal borrowing, servicing and repayment of municipal debts.

3.2. ***To simplify the procedure for attracting external loan funds to the development budget of local budgets. To stipulate that the Regulation on procurement of goods, works and services with state funds approved by CMU Regulation of 17.10.2008 No. 921 does not cover the procurement of goods, works and services related to implementing joint projects with international financial organizations and institutions with the status similar to that of international financial organizations.*** This would help attract significant funds from international financial institutions and would be in line with similar approaches in most European countries. There may be an alternative option of receiving explanations from the Ministry of Economy of Ukraine regarding the conclusion of agreements with financial organizations without a tender process or its granting permission to municipalities to procure financial services for municipal infrastructure projects from one participant for lack of the others.

3.3. ***To simplify the procedure for providing guarantees by sufficiently creditworthy local governments including cases of attracting privileged credit financing by institutions with the status similar to that of international financial organizations in implementing investment projects in energy-saving field.*** To this end, relevant changes need to be introduced to Article 14 of the Law of Ukraine on State Budget 2009 concerning the regulation of the issue of providing guarantees by local governments.

4. To create conditions for local authorities to attract additional financial resources using Kyoto Protocol mechanisms.

Today a significant number of municipalities have large potential in the field of implementing Kyoto Protocol projects. The obstacles include limited own financial resources (partly, it may be solved when implementing paragraphs of the first block) and the lengthy registration of these projects in the National Agency for Environmental Investments. Reducing the registration periods and enhancing the transparency of this procedure would provide the possibility to attract these resources in accordance with Kyoto Protocol mechanisms in the municipal sector already in the current year.

Broadening funding sources for energy-saving projects in cities and creating a favorable normative environment for their implementation has a number of advantages for the state and local governments. The main advantages are:

For the state:

- Cutting state budget expenditures as a result of reduced volumes of purchase of imported energy sources;
- Saving of budget funds as a result of reducing target capital subventions from the state budget to local budgets;
- Implementing controls over targeted use of budget funds by banks and local budgets;
- Promoting social and economic development of Ukrainian regions without taking money out of Ukraine's budget system;
- Spurring the economic activity at the municipal, regional and macroeconomic level.

For local governments:

- Diversifying funding sources of investment programs in energy-saving;
- Facilitating access to relatively cheap and long credit resources;
- Creating new jobs that would help raise additional local budget revenues;
- Saving budget funds on current expenditures at the cost of implementing capital projects in energy-saving field;
- Creating "poles of economic growth" in regions and streamlining the infrastructure development of cities.

At a result, owing to the implementation of the above measures, end users – settlement residents – would receive higher quality services from local authorities and utility companies and, in the future, reduced payments for services of companies in the housing and utilities sector.

March 26, 2009 city of Kyiv

ATTACHMENT 17

Draft

LAW OF UKRAINE
ON LOCAL BORROWINGS

Article 1. Scope of the Law

1. This Law shall regulate legal relations related to making local borrowings, legal relations related to assuming conditional obligations in respect of fulfillment of debt obligations as well as peculiarities of establishment and operation of the municipal finance facility.

2. This Law shall not cover legal relations arising in connection with the receipt by local governments of short-term loans up to three months within the current budget year to cover temporary liquidity gaps arising in the course of fulfilling the general fund of the local budget.

Section I. GENERAL PROVISIONS

Article 2. Term Definitions

For the purposes of this Law the terms shall have the following meanings:

debt obligation – an obligation to pay arising in connection with a local borrowing, issuing a local guarantee, a public-private partnership.

guarantor – the Autonomous Republic of Crimea, a territorial local community in case they provide local guarantees;

guarantee case – a violation by the debtor of the main obligation resulting in the arising of guarantor's debt obligations in favor of the creditor;

debt guaranteed by the Autonomous Republic of Crimea, territorial community of a city – a total of debt obligations of business subjects – residents of Ukraine regarding credits (loans) received and not repaid as of a certain date that are secured by a local guarantee*;*

contract on reimbursement of local budget funds – a contract between the guarantor and the debtor stipulating their rights and obligations in connection with providing a local guarantee as well as specifying the terms of providing the local guarantee;

contract on local guarantee – a contract between the guarantor and the creditor stipulating their rights and obligations as well as terms of the local guarantee;

investment project – a project whose implementation results in generated profits (income) or a social effect is achieved for the entire territorial community;

material terms of a local borrowing (a conditional obligation) – the term of a borrowing *(conditional obligation)*, the amount of a borrowing *(conditional obligation)*, the interest rate at which debt servicing is planned;

lender – any person or several persons who provide funds to the borrower on the terms of repayment, paid services and term established including bond holders of the local bonds;

local guarantee – obligations by the guarantor in favor of the creditor on the terms specified in the contract on local guarantee to fulfill monetary obligations of the debtor in the event of a guarantee case;

local borrowing – a deed related to the receipt to the budget of the Autonomous Republic of Crimea, a local budget of credits (loans) under the terms of repaying them, paying for them and using them for a specified term;

local debt – a total amount of unconditional debt obligations of the Autonomous Republic of Crimea, a territorial community of a city

local budget – the budget of the Autonomous Republic of Crimea, municipal budget;

borrower – the Autonomous Republic of Crimea, territorial community of a city in the event of their carrying out a local borrowing or assuming obligations as part of public-private partnership to pay for commissioned infrastructure facilities;

public-private partnership – the attracting by the Autonomous Republic of Crimea, a territorial community of a city of private financing to construct (reconstruct) facilities that are built (reconstructed) at the cost of the relevant budget in accordance with law. Repaying the attracted financing shall be carried out by paying for these facilities by the Autonomous Republic of Crimea, a territorial community of a city provided they are commissioned and meet the established requirements;

conditional obligation – an obligation of the Autonomous Republic of Crimea, a territorial community of a city arising in accordance with this Law and becomes effective in case of the occurrence of a certain event;

conditional local debt – a total of conditional obligations of the Autonomous Republic of Crimea, a territorial community of a city. Conditional local debt shall consist of the debt guaranteed by the Autonomous Republic of Crimea, a territorial community of a city and the debt assumed as part of public-private partnership.

Article 3. The Right to Make a Local Borrowing and Assume Conditional Obligations

1. Making local borrowings and assuming conditional obligations shall take place in accordance with the Budget Code of Ukraine, this Law, and other legislation of Ukraine.

2. Only the Autonomous Republic of Crimea and territorial communities of cities shall have the right to make borrowings and assume conditional obligations (except for cases stipulated by Article 73 of the Budget Code of Ukraine).

3. The Verkhovna Rada of the Autonomous Republic of Crimea, the local council shall resolve on its intention to make a local borrowing that must contain information about the material terms of borrowing, the form of making the borrowing in accordance with part one of Article 4 of this Law, the purpose of the borrowing, the availability of security for the fulfillment of local borrowing obligations.

4. The resolution on making a local borrowing is passed by a majority of people's deputies of the total composition of the Council. During the last twelve months before the regular election to City Councils and the Verkhovna Rada of the Autonomous Republic of Crimea, the

resolution on making a local borrowing is passed by two-thirds of people's deputies of the total composition of the Council.

5. The State shall not be responsible for debt obligations of the Autonomous Republic of Crimea, territorial communities of cities, except where the State provides the creditor with a sovereign guarantee of fulfillment of such obligations.

Article 4. Forms and Terms of Making Local Borrowings

1. A local borrowing may be carried out in the following forms:

1) entering into a contract to obtain a loan;

2) issuing municipal bonds.

2. A local borrowing is carried out to finance development budget deficit of a relevant local budget. A local borrowing may be carried out to refinance the local debt.

3. A local borrowing may be made in the national or foreign currency in accordance with legislation of Ukraine.

4. Terms of local borrowing including any contracts on its execution may stipulate early repayment of the debt upon creditor's demand in case of borrower's non-fulfillment of obligations to repay and service the debt.

5. To properly fulfill their obligations under the contract on local borrowing, the borrower, in accordance with the terms of the contract, shall be obliged to plan, in the appropriate local budget, debt repayment and servicing costs in the amount sufficient for proper fulfillment of its obligations under the contract.

6. Local debt servicing costs are incurred with due regard to requirements of current legislation in accordance with the contract on local borrowing irrespective of the amount of funds allocated for this purpose in the resolution on local budget. Costs of repayment and servicing the local debt are determined as protected when approving the resolution on the relevant local budget.

7. If costs of repayment and servicing the local debt exceed the amount of funds allocated for such purpose in the resolution on local budget, the Verkhovna Rada of the Autonomous Republic of Crimea, local council is obliged to ensure the introduction of appropriate changes to the resolution on local budget.

8. The borrower may be entitled to involve relevant institutions that would make local borrowings on its behalf.

9. The borrower may set up a reserve fund for fulfilling obligations to repay and service the debt in the amount of the maximum size of the annual repayment and servicing of local debt and deposit the reserve fund in banks or by way of entering into agreements on temporary purchase of government or local bonds simultaneously assuming an obligation to sell them.

10. Before entering into a contract on local borrowing, the borrower shall conduct a public discussion of such decision. To this end, the draft resolution on making a local borrowing with a description of fund uses shall be published with the view to receiving comments and proposals from members of the relevant territorial community.

11. The draft resolution on making a local borrowing shall be published in the official printed mass medium of the relevant territorial community, and if no such medium exists, in printed mass media designated by the borrower and/or by posting the draft resolution on the official website of the relevant territorial community.

12. The term during which comments and proposals are accepted may not be less than one month. All comments and proposals regarding the draft resolution received during the established term shall be considered by the borrower. Based on results of such consideration, the borrower shall fully or partially take into account comments and proposals or gives a motivated rejection.

Article 5. Assuming conditional obligations

1. The decision to issue a local guarantee, assume obligations as part of a public-private partnership to pay for commissioned infrastructure facilities shall be approved by the Verkhovna Rada of the Autonomous Republic of Crimea, respectively, a city council by an at least three-fourth majority of the total number of People's Deputies in the relevant council. Local guarantees shall be issued to secure or partial fulfillment of business subjects' debt obligations in the utilities sector of the economy located in the territory of the Autonomous Republic of Crimea, relevant city and implement investment projects in this territory.

2. Guarantees shall be paid for, issued only for a specified term and the fulfillment of obligations shall be secured by property.

3. During the term of the contract on local guarantee, the Verkhovna Rada of the Autonomous Republic of Crimea and city councils shall allocate funds in local budget resolutions to fulfill guarantee obligations regarding payments due in a relevant budget period. Such funds shall be stipulated:

regarding guarantee-secured contracts under which a guarantee case has already occurred;

regarding other guarantee-secured contracts – at least 50 per cent of amounts of payments under these contracts.

4. Guarantees shall not be issued to secure debt obligations of business subjects of the source of repaying over 50 per cent of the amount is the state (local) budget funds.

5. Before entering into the contract on local guarantee, the guarantor shall be obliged to conclude a contract with the debtor on reimbursing costs to the local budget.

6. Payment for providing a local guarantee is determined by resolution of the Verkhovna Rada of the Autonomous Republic of Crimea, city Council. Payment for the provision of a local guarantee shall be transferred to the relevant local budget.

7. The value of collateral provided by the debtor to the guarantor must be at least 120% of the amount that may be paid by the guarantor under the terms of the contract on local guarantee.

Article 6. Securing fulfillment of obligations for a local borrowing

1. To secure the fulfillment of its obligations under local borrowings, the borrower shall use his own property and property rights.

2. Fulfillment of obligations may not be secured by objects of communal property of a territorial community, upon which, in accordance with law, no recovery may be imposed and objects that are not subject to alienation in accordance with law.

3. A legal document stipulating any encumbrance of borrower's property and property rights in connection with the borrowing shall be notarized in cases and in accordance with the procedure stipulated by legislation of Ukraine. Any encumbrance of borrower's property and property rights in connection with the borrowing shall be subject to state registration in accordance with the procedure stipulated by legislation of Ukraine.

4. The borrower shall be obliged to notify the lender of whether the property that is offered by the borrower as security for its obligations is encumbered.

5. Property that is used to secure fulfillment of debt obligations of the borrower under a local borrowing shall be subject to obligatory appraisal that shall be carried out in accordance with legislation of Ukraine.

6. To manage the debt, a local financial body may perform deeds in local debt including exchange, issuance, purchase and sale of local debt obligations observing the local debt cap as of the end of budget period.

Article 7. Restrictions on local debt

1. The total amount of local debt and conditional local debt as of the end of budget period must not exceed 200 per cent of the average annual amount of development budget revenues (without regard to the amount of local borrowings) for the past three years preceding the reporting year. The amount of annual payments to repay the local debt must not exceed 100% of such revenues.

2. In case of exceeding the cap stipulated by part one of this Article, the Verkhovna Rada of the Autonomous Republic of Crimea, a city council shall take measures to bring this amount into compliance with the provisions of this Law.

3. Local budget expenditures to service the local debt may not annually exceed 10 per cent of expenditures of the local budget general fund during any given budget period when local debt service is planned.

4. A report on fulfillment of local budget shall be published in the official printed mass medium of the relevant territorial community and if there is no such medium – in printed media specified by the borrower and/or by posting the report on the official website of the relevant territorial community no later than 10 days after its approval by the local council. A separate Section of the report must include information about observing the restrictions of the local budget.

Section II. PROCEDURE FOR MAKING LOCAL BORROWINGS AND ASSUMING CONDITIONAL OBLIGATIONS

Article 8. Approval of a local borrowing and conditional obligation by the Ministry of Finance of Ukraine

1. The borrower, guarantor intending to conclude a contract on local borrowing, a contract on local guarantee and a contract on public-private partnership shall give a written notice to the Ministry of Finance of Ukraine before entering into relevant contracts. In case of borrowing in the form of issuing municipal bonds, the notification to the Ministry of Finance of Ukraine is given before registering the municipal bond issue with the Securities and Stock Market State Commission.

2. The following documents and information shall be attached to the notification of the intention to make a local borrowing:

1) a properly notarized copy of resolution of the Verkhovna Rada of the Autonomous Republic of Crimea, city council on making a local borrowing;

2) planned calculations of indicators of the total amount of local budget;

3) planned calculations of annual costs of local debt servicing;

4) information regarding local budget development budget revenues for the past three years;

5) schedules of debt servicing under received and outstanding local borrowings if they have not been provided to the Ministry of Finance of Ukraine earlier;

3. The following documents and information shall be attached to the notification of the intention to assume a conditional obligation in addition to the documents specified by para 2-5 of part two of this Article:

1) a properly notarized copy of resolution of the Verkhovna Rada of the Autonomous Republic of Crimea, the city council on assuming a conditional obligation;

2) an opinion of the executive body of the city council, local state administration, the Council of Ministers of the Autonomous Republic of Crimea regarding the social purpose or profitability of the project, for which financing the borrowing is made against a local guarantee, a contract on public-private partnership is entered into, and the ability of the debtor to ensure the servicing of such borrowing;

3) debt servicing schedules on principal obligations secured by issued guarantees, if they have not been submitted to the Ministry of Finance of Ukraine earlier.

4. The borrower, guarantor shall inform the Ministry of Finance of Ukraine of a change of material terms of the local borrowing (conditional obligation) in accordance with the same procedure as for making the local borrowing, issuing a guarantee or assuming a conditional obligation. The documents that have already been provided to the Ministry of Finance of Ukraine may not be provided if the information contained therein has not changed, which shall be specified in the notification.

5. The Ministry of Finance of Ukraine shall not be entitled to require additional documents and information that are not stipulated by this Article.

6. During 20 calendar days from the day of submitting all documents and information stipulated by parts two and three of this Article, the Ministry of Finance of Ukraine may, based on the submitted documents, resolve on prohibiting the borrowing or assuming a conditional obligation. If during 20 calendar days the Ministry of Finance of Ukraine has not notified of a prohibition to make a borrowing or assume a conditional obligation, such borrowing or conditional obligation shall be considered legitimate.

9. The Ministry of Finance of Ukraine may resolve on prohibiting a local borrowing or providing a local guarantee in the following cases:

if local debt service expenditures exceed 10 per cent of expenditures from the general fund of the relevant local budget based on results in the report on fulfillment of the local budget for the year preceding the year when the decision was approved to make a borrowing or conduct other transaction;

if the total amount of payments to repay the local debt falling on any year exceeds 150 per cent of the average annual amount of development budget revenues (without regard to the amount of local borrowings) over the past three years.

10. An opinion prohibiting making a local borrowing or assuming a conditional obligation shall be sent to the borrower or guarantor respectively.

11. After correcting the specified deficiencies, the borrower, guarantor shall be entitled to again give the notification to the Ministry of Finance of Ukraine in accordance with the procedure stipulated by this Law.

12. The absence of the prohibition by the Ministry of Finance of Ukraine against making a local borrowing or assuming a conditional obligation is not a guarantee by the State or the Ministry of Finance of Ukraine to fulfill borrower's obligations that arise from the local borrowing or assuming a conditional obligation and are not a confirmation of the borrower's creditworthiness.

Article 9. Registration of local borrowings and conditional obligations

1. All contracts on local borrowings, contracts on local guarantee, contracts on reimbursing costs to the local budgets, contracts on public-private partnership as well as changes to material terms thereof shall be registered in the Registry of Local Borrowings and conditional obligations.

2. The borrower, guarantor shall notify the Ministry of Finance of Ukraine of concluding a relevant contract as well as of changes to its material terms within the five-day term from the moment of concluding the contract (changes thereto). A copy of the contract shall be attached to the notification (changes to the contract).

3. In case discrepancies should be identified between material terms of the concluded contract and material terms approved by the Ministry of Finance of Ukraine, the Ministry of Finance of Ukraine shall be entitled to apply to file a court claim to invalidate such contract.

4. Registering contracts on external local borrowings made in a foreign currency shall be carried out by the National Bank of Ukraine in accordance with the established procedure.

5. A municipal bond issue and the issue prospectus shall be subject to registration with the Securities and Stock Market State Commission in accordance with the established

procedures. Information about municipal bond issuance, after registering with the Securities and Stock Market State Commission, shall be fully published in official newspapers of the Securities and Stock Market State Commission at least 10 days before beginning to place the bonds.

Article 10. Registry of local borrowings and conditional obligations

1. The Ministry of Finance of Ukraine shall maintain the registry of local borrowings and conditional obligations containing information on local debt and conditional local debt.

2. To maintain the Registry of local borrowings and conditional obligations, each borrower, guarantor who received funds as a result of a borrowing or made settlements for repayment and/or debt service or payment under the contract on local guarantee or payments for commissioned infrastructure facilities as part of public-private partnership within 5 working days after crediting the funds to the borrower's account or their write-off, shall submit the following information to the Ministry of Finance of Ukraine:

1) information about the amounts received;

2) information about the amounts of debt service classified by each borrowing;

3) information about the volume of fulfilled guarantee obligations classified by each guarantee;

4) information about amounts of fulfilled obligations to pay for commissioned infrastructure facilities as part of public-private partnership;

5) information about overdue, unduly fulfilled or non-fulfilled obligations.

3. The procedure for maintaining the Registry of local borrowings and conditional obligations shall be determined by the Cabinet of Ministers of Ukraine.

4. Each month, the Ministry of Finance of Ukraine shall publish the Registry of local borrowings and conditional obligations on its official website.

5. The Ministry of Finance of Ukraine shall not disclose information contained in contracts on local borrowings, contracts on local guarantee and contracts on reimbursing for local budget costs, contracts on public-private partnership, if such information has been determined by the borrower, guarantor as being confidential in accordance with legislation of Ukraine.

6. The Registry of municipal bond issues shall be maintained by the Securities and Stock Market State Commission.

SECTION III. VIOLATION OF OBLIGATIONS. RESPONSIBILITY

Article 13. Consequences of violating an obligation

1. In case of borrower's violating the obligation for local borrowing, the lender shall be entitled to satisfy its claims at the cost of pledged property in accordance with the procedure stipulated by law as well as by other means stipulated by legislation of Ukraine.

2. If the violation of the obligation persists for more than 30 working days, the borrower and lender shall notify the fact to the Ministry of Finance of Ukraine during the following 5 working days. The Ministry of Finance of Ukraine shall verify the received information and, within 3 working days after its receipt, input the record on recognizing the borrower as violating the obligations onto the Registry of local borrowings and conditional obligations.

Article 14. Responsibility

1. For local debt obligations, the borrower, guarantor shall be responsible with all his own property including funds from the relevant budget, except for property upon which no recovery may be imposed in accordance with law.

2. The State Treasury of Ukraine shall intercept funds in accounts in which local budget funds are accounted for within the amount of development budget revenues upon demand of the creditor or creditors under the contract on local borrowing, local guarantee, public-private partnership in case of not fulfilling the obligations by the Autonomous Republic of Crimea, territorial community of a city, if the relevant contract stipulates such possibility.

3. If in the process of repaying the principal of the local debt and its service payments stipulated by the agreement between the creditor and the borrower there is a violation of the repayment schedule due to borrower's fault, the relevant borrower shall not be entitled to make local borrowings increasing the amount of local debt based on year-end results during the next five years.

4. Persons guilty of violating this Law shall bear civil, disciplinary, administrative or criminal responsibility in accordance with legislation of Ukraine.

5. Budget violations including those specified in part three six of this Article shall not be a ground to invalidate a contract on local borrowing, local guarantee, a contract on public-private partnership unless the law provides otherwise.

SECTION IV. MUNICIPAL FINANCE FACILITY

Article 15. Municipal finance facility

1. Municipal finance facility (the "Facility") shall be a specialized finance facility intended to finance the development of regional and local infrastructure at the cost of the funds raised in the capital market to provide loans for infrastructure to borrowers and companies in the utilities sector of the economy in accordance with the procedure stipulated by this Law.

2. The Facility may carry out its activities after its introduction onto the State Registry of financial institutions and obtaining required licenses in accordance with the procedure stipulated by law.

3. The Facility may establish detached divisions (branches, representative offices) operating pursuant to by-laws approved by the Municipal Finance Facility as well as found legal entities, participate in associations of legal entities provided their activities are in line with the objective of the activities of the Facility.

Article 16. Subject of Activities of the Facility

1. The Subject of Activities of the Facility shall be:

1) issuing securities;

2) attracting funds through issuing debentures, obtaining loans, credits, credit lines in financial institutions;

3) providing loans for infrastructure improvement to borrowers and companies in the utilities sector of the economy;

4) deeds in municipal bonds;

5) providing guarantees as to the fulfillment of debt obligations by borrowers and companies in the utilities sector of the economy;

6) providing servicing of international credit lines which funds are used in the field of lending to regional and local infrastructure projects;

7) providing consultations and information regarding its services.

2. Pursuant to the objective of its activities stipulated by this Law, the Facility shall carry out other activities in accordance with legislation of Ukraine.

Article 17. Charter capital

1. The minimum amount of charter capital as of the moment of registering the Facility shall be UAH 100 million.

2. Contributions to the charter capital of the Facility may be made from the funds of legal entities and natural persons, the state and local budgets, and international organizations.

Article 18. Using outside services

1. The Facility may, based on contract, avail itself of manager's services.

2. The manager may be a bank or a non-banking financial institution having the required licenses and permits to provide relevant financial services.

3. The Facility may, based on contract, to involve relevant institutions that would, on its behalf, carry out borrowings or separate functions in connection with a borrowing (those of a payment agent, depositary, etc.).

Article 19. A reserve fund for fulfilling obligations

1. The Facility may set up a reserve fund for the fulfillment of obligations to repay and service the debt in the amount of the maximum size of annual debt repayment and service and place funds of the reserve fund on deposit in banks.

Article 20. Accounting and reporting

1. The Facility shall maintain accounting records and provide reports pursuant to requirements of laws and normative acts of state authorities regulating activities of financial institutions and financial services markets.

2. Assurance on financial statements of the Municipal Finance Facility shall be confirmed by an auditor (an audit firm) in accordance with legislation of Ukraine.

SECTION V
FINAL PROVISIONS

1. This Law shall take effect from the day of its publishing.

2. After this Law takes effect, other normative act shall be applied insofar as they do not contradict it.

3. Provisions of Article 7 of this Law shall not cover local borrowings and local guarantees that have been carried out and provided before the taking effect by this Law except for cases where the Autonomous Republic of Crimea or city council make a new borrowing or provide a new guarantee after this Law takes effect. In this case, restrictions imposed by Article 7 of the Law shall cover the entire amount of local debt of such borrower or guarantor.

4. To introduce chances to the following legislative acts of Ukraine:

4.1. In the Law of Ukraine “On State Regulation of the Securities Market in Ukraine” (Bulletin of the Verkhovna Rada, 1996, N 51, page 292):

Part thirteen of Article 4-1 shall be supplemented by paragraph 5:

"domestic municipal bonds and bonds of the municipal finance facility"

4.2. In the Law of Ukraine “On Securities and Stock Market” (Bulletin of the Verkhovna Rada, 2006, N 31, page 268):

1) In passage two of part two of Article 2, the words: “the Autonomous Republic of Crimea or city councils” shall be replaced by the words: “the Autonomous Republic of Crimea, territorial communities of cities”;

2) in part one of Article 7 the word “provided” shall be replaced by the word “provided” (plural in Ukrainian-translator’s note), the word “term” shall be replaced by the word “terms”;

3) part four of Article 7 shall have the following language:

“Bonds may be placed with fixed maturities, the same for the entire issue. Amortized bonds may be placed on the conditions of partial redemption of their par value simultaneously with paying income on bonds. Such possibility should be stipulated by the terms of placing amortized bonds, determining the amount and terms of partial redemption of the bonds. Early

redemption of bonds upon demand of their owners shall be allowed in case such possibility is stipulated by bonds placement terms stipulating the procedure for pricing early redemption of bonds and terms in which such bonds may be presented for early redemption.";

4) Article 9 shall be supplemented by part three:

"During placement, municipal bonds shall be paid for by the first holder at a price no lower than their par value except for discount bonds and those placed by a public offering at a stock exchange."

Part three of Article 9 shall be considered as part four.

5. The Cabinet of Ministers of Ukraine shall, within three months:

1) bring its normative acts into compliance with this Law and ensure bringing by central executive authorities of their normative acts into compliance with this Law;

2) ensure the passage of normative acts in execution of this Law.

President of Ukraine **V.A.Yuschenko**

ATTACHMENT 18

Memorandum
On Resolution of the Cabinet of Ministers of Ukraine # 52 dated 28 January 2009
"On Approval of the Procedure for Placement in 2009 of Temporarily Free Funds of Local Budgets in Deposit Accounts in the Banking Institutions"

On 28 January 2009, the Cabinet of Ministers of Ukraine has adopted the Resolution # 52 "On Approval of the Procedure for Placement in 2009 of Temporarily Free Funds of Local Budgets in Deposit Accounts in the Banking Institutions". The Resolution approves the procedure for placement in 2009 of temporarily free funds of the local budgets in deposit accounts in the banking institutions. The procedure envisages that placement of temporarily free funds of local budgets is conducted exclusively in the institutions of government banks. For placement of temporarily free funds in deposit accounts in the banking institutions, financial body of a self-government body shall form an application-proposal in which it defines the volume of funds for placement, terms of the deposit and sends it to the government banks' institutions. Should as of the deadline established in the application-proposal, a proposal be received from only one banking institution which complies with the terms defined by the application-proposal, this proposal is the ground for conclusion by a financial body of the bank deposit agreement with the banking institution. Should there be proposals from several banking institutions, the relevant institution is identified on a tender basis. Information related to consideration, explanation, assessment and comparison of proposals is confidential. The winner of the tender is the banking institution which, upon other equal conditions, proposed the highest interest rate on the deposit for the relevant period of time.

Compliance analysis of the norms of the Resolution shows that these norms conflict with the norms of legislative acts of higher legal force.

A requirement to place temporarily free funds of the local budgets exclusively in the government banks' institutions violates equality of all forms of ownership which is stipulated by the Constitution of Ukraine. Moreover, the Constitution obliges the Cabinet of Ministers of Ukraine to ensure equal conditions for development of all forms of ownership[1].

Property, including monetary funds, owned by the territorial community is in communal ownership[2]. The Constitution envisages the right of the territorial community to manage property in its communal ownership directly or through the local self-government bodies[3]. The procedure infringes the right of the territorial

[1] Articles 13 and 166 of the Constitution of Ukraine.
[2] Article 327 of the Civil Code.
[3] Article 143 of the Constitution of Ukraine.

community as a proprietor to dispose of its property on its own discretion, as well as to take any actions with respect to its property which do not contradict the law. The law prohibits the government from interference into exercising by the proprietor of its ownership right. Nobody can be illegally restricted in exercising of ownership rights (except the cases and according to the procedure established by the law)[4].

The Budget Code of Ukraine establishes the principle of independence of local budgets. Independence of the budgets is ensured inter alia by the right of the relevant local self-government bodies to identify directions for use of the funds according to the Ukrainian legislation[5].

The Law "On Local Self-Government" gives to the local self-government bodies the right to place funds owned by them in the banks of other subjects of ownership right[6].

The Law "On State Budget of Ukraine for 2009" gives the right to the local financial bodies, according to the procedure established by the relevant local council, to make from temporarily free funds of the local budgets purchase of domestic government bonds and bonds issued by the relevant councils, with simultaneous obligation to sell them which will be ensured by pledging of these bonds, with further repayment of funds of the local budgets by the year end[7].

The situation is aggravated by the fact that the Cabinet of Ministers may apply sanctions in case of non-fulfillment of this Resolution in the form of refusal in no-interest loans for the general fund of the local budgets.

Analysis of economic consequences of this Resolution shows the following. Most probably, the reason for limiting of the circle of commercial banks in which funds of the local budgets can be deposited to the government banks is in fear to lose these funds because of possible insolvency of the banks caused by the financial crisis. At the same time, withdrawal from the banking system of local budget deposits which as of 10/01/2008 were about UAH 7.3 billion according to NBU data, or approximately two percent of liabilities in the national currency of all commercial banks, will just aggravate the crisis. The reason for this is the fact that withdrawal of local budget deposits decreases ability of the banks to pay on household deposits as people will start to withdraw even more deposits from the banks. This will lead to the banks giving less loans to the real sector of economy, and will result in exacerbation of crisis. On the other hand, monopolistic position

[4] Articles 319 and 321 of the Civil Code.
[5] Article 7 of the Budget Code.
[6] Article 70 of the Law "On Local Self-Government".
[7] Article 18 of the Law "On State Budget of Ukraine for 2009".

of the government banks in the market of deposit services will lead to decrease of interest received by the local budgets. This will also reduce capacity for local self-government in solvent ordering of goods and services in order to satisfy the needs of the relevant territorial community which will also lead to exacerbation of economic crisis.

In these circumstances, it is possible to prevent loss of funds by the local budgets through possible placement of funds by the financial bodies through purchase of government bonds or municipal bonds, with an obligation to sell them (reverse repo transactions) according to the scheme attached. Such possibility is provided by the norms of paragraph 2, Article 18 of the Law of Ukraine "On State Budget of Ukraine for 2009".

Placement on such terms will ensure:

- Prevention of risks to lose funds due to insolvency of the banks;
- Maximum income from placement of free balances; and
- Increased demand among banks for the government bonds and municipal bonds.

In order to implement this possibility, the Ministry of Finance should decide on the procedure for redemption of government bonds from the local financial bodies in case of bank insolvency.

The Access to Credit Initiative is experienced in drafting the documents on placement of funds for local budgets on the terms of reverse repo.

ATTACHMENT 19

MINUTES #4

of the Fourth General Meeting
of the public organization
"Certified Lease Specialists Union"
of 1 February 2008

Attendants:
Members (founders) of the organization:

- Lilia Snigir

Certified lease specialists:

- 21 certified lease specialists.

Chairman of the meeting – Larisa Shkurka, member of the Board of the public organization "Certified Lease Specialists Union".

Secretary of the meeting – Alina Chernomaz, member of the public organization "Certified Lease Specialists Union".

I). Approval of the Agenda of the Fourth General Meeting of the public organization "Certified Lease Specialists Union" (hereinafter – the Union).

Proposed Agenda of the Fourth General Meeting of the Certified Lease Specialists Union was distributed to all participants of the General Meeting.

Decision: As a results of discussions, Agenda of the General Meeting of the Union was approved.
Voting: «FOR» - unanimously

II). Brief overview of work results of the public organization "Certified Lease Specialists Union" in 2008.

Larisa Shkurka, member of the Board of the Union, reported to the participants that already 95 certified lease specialists are currently working in Ukraine, of which 12 specialists have just received their certificates. In 2008, registration of the Union was completed, in particular, a status of non-profit organization was received, as well as procedure of registration of "Leasepro" trademark was started, and it is expected to be finished at the end of 2009. Official web site of the Union www.leasepro.org.ua started its operation. Audit and consulting group "Kompas" – an official training provider for CLS Program – has informed on its intention to make charity contributions in the Union's fund in the amount of UAH 100 for every person taking training on this Program. Moreover, the results of questionings about quality of the course and its presentation conducted by the training provider among the listeners after the end of all training modules were announced: average evaluation of the training was 4.8 points out of 5 possible.

Decision: To take information presented by L. Shkurka into consideration.

III). Approval of the Union's budget.

The following draft budget was offered to all meeting participants:

Items	Budget for the month, UAH	Budget for the year	
		UAH	USD
EXPENSES			
Bank servicing	70	840	109
Rent of premises for CLS meetings (twice a year)	1,760	3,520	460
Rent of premises for CLS Program exams (twice a year)	2,600	5,200	676
Servicing of the web site	200	2,400	312
Total		***11,960***	***1,557***
INCOME			
Membership fees (50 members x UAH 200)		10,000	1,300
Charity contributions of training providers (twice a year) (20 listeners x UAH 100)		2,000	260
Total		***12,000***	***1,560***

As a result of discussions, a proposal was made to approve this budget as the basis and to allow the Board of the Union to re-distribute funds between its items.

Decision: As a result of discussions, the budget is approved. The Board was instructed to communicate this decision to all members of the Union, and to convey to them all necessary information on transfer of funds.

Voting: «FOR» - unanimously

IV). Directions of cooperation between the Union and Kyiv National Trade and Economy University

Natalia Shulga, Dean of the Banking Chair at KNTEU, informed the meeting participants about the university's intention to open masters' program on Lease speciality. It is planned to introduce two subjects: finance management and marketing for lease services. Members of the union were invited to participate in preparation of curricula and lecturing, with possibility to identify in future the subjects of master thesis and be research supervisors in their writing. In addition, a proposal was expressed about sending the university students for internship to those lease companies in which members of the Union work.

Decision: To take information presented by N. Shulga into consideration.

V). Prospects of cooperation between the Union and the Ukrainian Association of Lessors

Participants of the meeting were informed that the Ukrainian Association of Lessors addressed ATCI with an intention to become an official training provider on CLS Program. ATCI informed the Association of the requirements set for the training providers, as well as necessity to get approval for all training materials from the Union which is an administrative body of CLS Program and is responsible for examination process.

Decision: As a result of discussions, it was decided to form a task force consisting of S. Babelo, Yu. Vasin, Yu. Volosnikov, A. Dyadyura and M. Soroka for further contacts with the Ukrainian Association of Lessors.

Voting: «FOR» - unanimously

VI). Information on work plan of the Certified Lease Specialists Union.

As a result of discussions, the following work plan for the year was established:

1. To obtain rights for the lease manual prepared by ATCI with participation of members of the Union
2. To conclude an exclusive license agreement with the Foundation of Certified Lease Professionals (USA)
3. To appoint the Executive Director
4. To start looking for the grants
5. To organize lectures for the certified lease specialists in order to exchange opinions on a fee basis
6. To set up an Employment section on the official web site of the Union
7. To work on popularization of CLS Program and activities of the Union

In the course of discussion, member of the Union Yury Volosnikov has volunteered to occupy the Executive Director position as a public work.

Decision: Work plan for the year was approved. Chairman of the meeting L. Shkurka was charged with informing the President of the Union on the results of discussion for approval of Yu. Volosnikov in his position.

Voting: «FOR» - unanimously

Founder of the public organization
"Certified Lease Specialists Union" Lilia Snigir

Member of the Board of the public organization
"Certified Lease Specialists Union" Larisa Shkurka

Secretary of the meeting, member of the public organization
"Certified Lease Specialists Union" Alina Chernomaz

ATTACHMENT 20

Leasing Market Performance in 2008

Key findings of the survey:

- on the whole, growth trends seen in 2007 continued during the first three quarters of 2008, however, starting from September, the situation worsened due to macroeconomic situation.
- though the number of lease contracts concluded in 2008 grew, as compared to 2007, and amounted to 9,766, the overall size of new lease transactions decreased by UAH 6.9 billion (40%) and was UAH 9.98 billion. That was caused by the crisis and reduction in the average size of lease transactions;
- leasing portfolio as of the end of 2008 was UAH 28.5 billion thus increasing by over 30% as compared to 2007. However, as of September, 30, leasing portfolio was UAH 29.5 billion and decreased by nearly UAH 1 billion just during the 4th quarter due to the drop in new leases and overall halt in financing;
- distribution of contracts by industry: transport – 51 %, construction – 15.2%, agriculture – 9.5%, service sector – 8.2%. In the light of current situation, construction equipment is sure to lose some of its share, however there are still prospects for this type of equipment due to EURO-2012;
- the main sources of financing of lease transactions were bank loans (47.1%) and own funds of leasing companies (21.8%) which grew by 100% as compared to 2007 (10.73%).
- the share of short-term (up to 5 years) leasing contracts grew by 17% due to unstable political and economic situation in the country which made long-term investments risky

Forecasts:

- The decline is most certain to continue during 2009 and we will be lucky if it stops at the level of 2006 indicators.
- Many companies will cease to operate, first of all, independent and captive ones. Bank-owned leasing companies have some prospects provided that their parent banks are in a good shape.
- The companies-survivors will focus on smaller projects and work with SMEs and individuals (car leasing).
- Percentage of bad debt in leasing portfolios may reach as high as 50-60%
- The situation can be improved if banks pursue the idea of transferring their troubled assets to their leasing companies and work out appropriate mechanisms for that

New Leases

Diagram 1. *Total value and number of lease contracts concluded in 2008 as compared with the previous year*

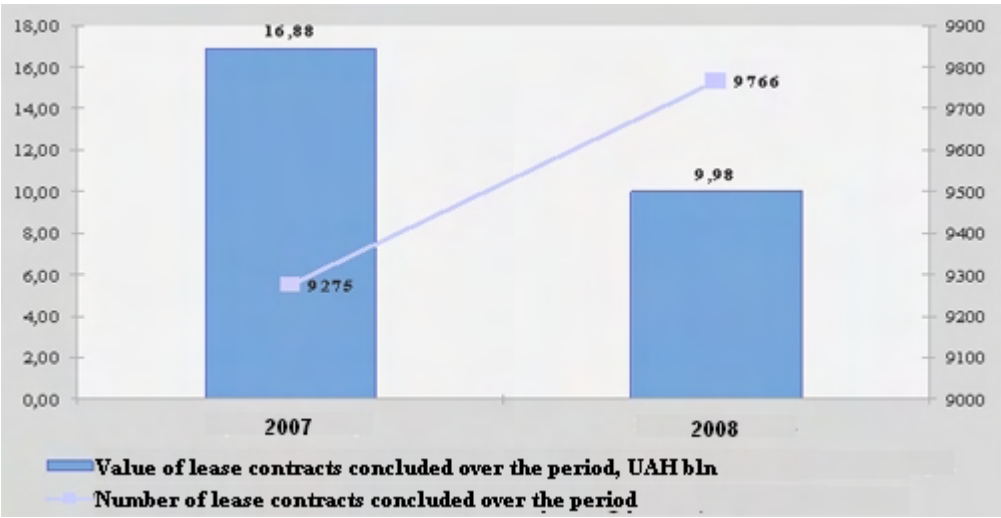


Diagram 2. *Number and value of lease contracts concluded during the quarter in 2007-2008, UAH mln*

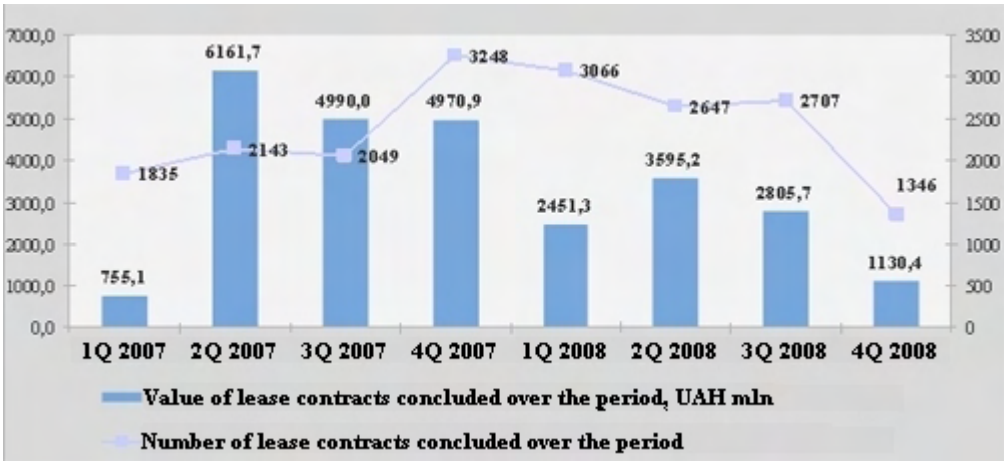


Diagram 3. *Value of lease contracts concluded during the quarter in 2006-2008, UAH mln*

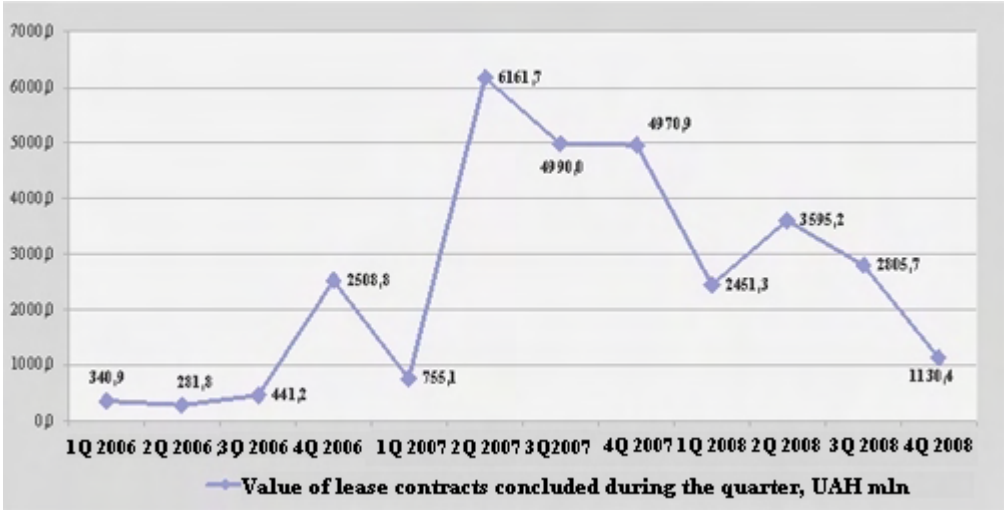
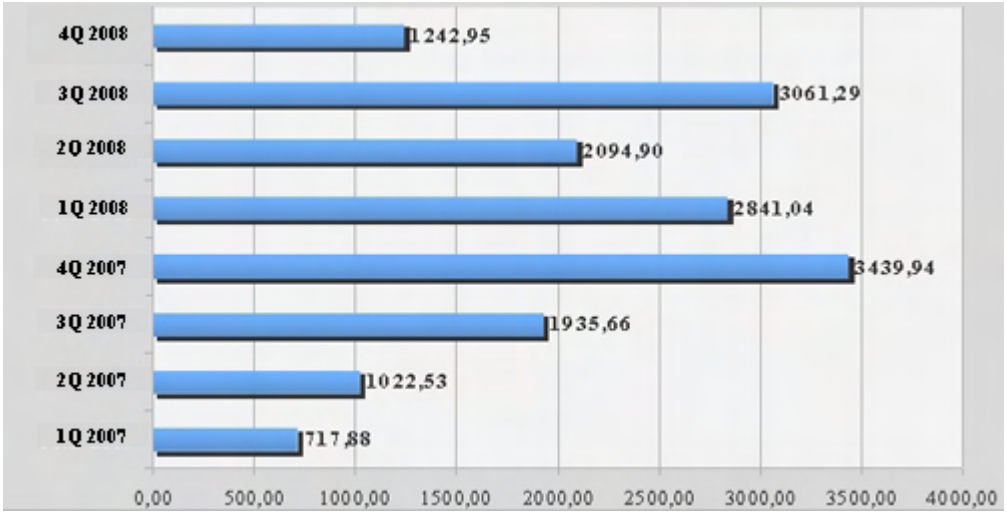


Diagram 4. *Value of leased assets, UAH mln*



Leasing Portfolio

Diagram 5. *Value and number of outstanding lease contracts as of the end of 2008 as compared with the previous year*

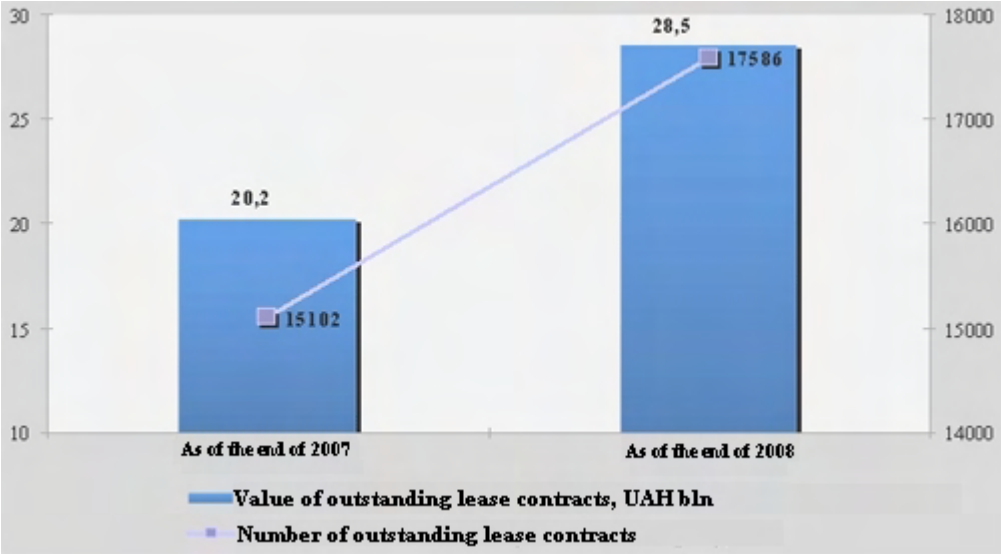


Diagram 6. *By-quarter distribution of outstanding lease contracts for 2007-2008*

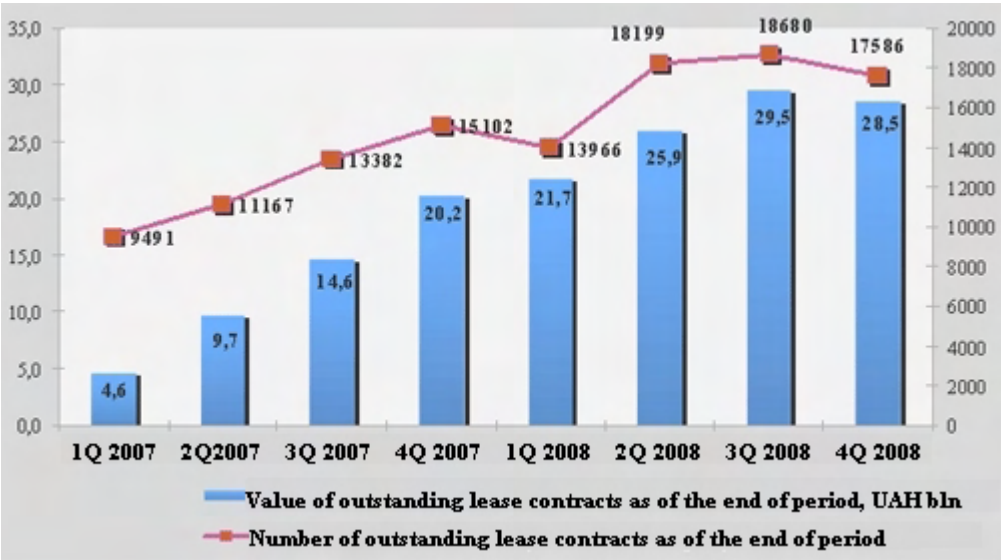


Diagram 7. *Value of outstanding lease contracts as of the end of the quarter of 2006-2008, UAH bln*

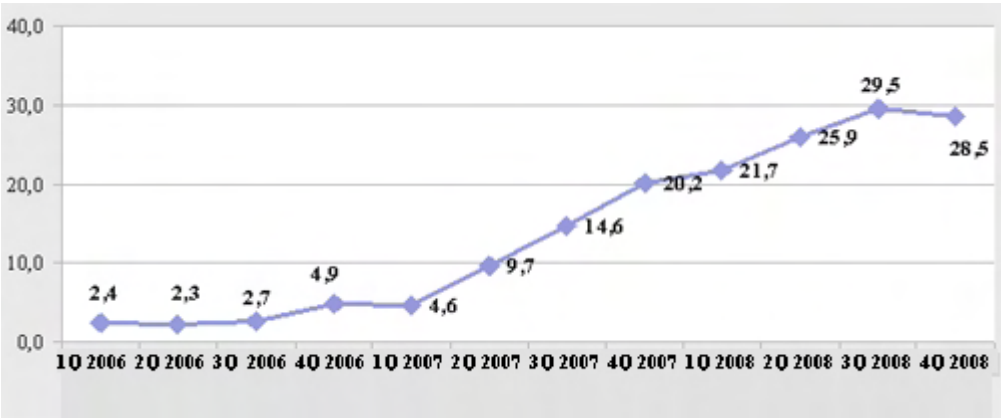


Diagram 8. *Distribution of lease contracts by equipment type as of the end of 2008 as compared with the previous year*

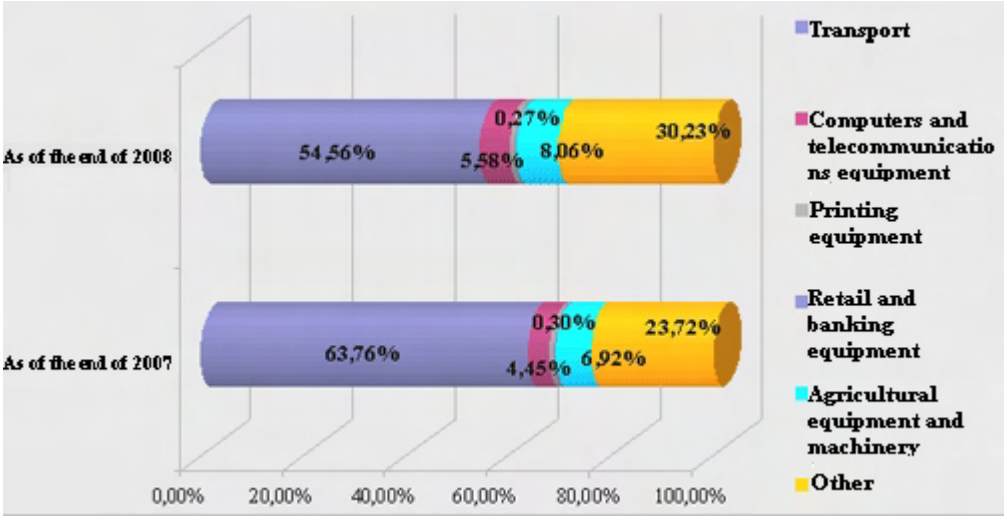


Diagram 9. *Distribution of lease contracts by industries as of the end of 2008 as compared with the previous year*

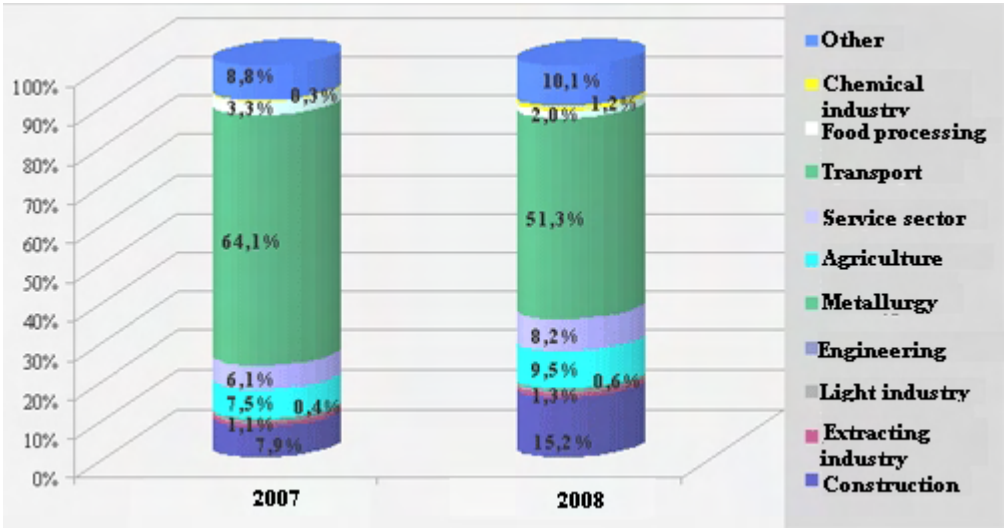


Diagram 10. *Average term of lease contracts as of the end of 2008 based on the number of contracts, years*

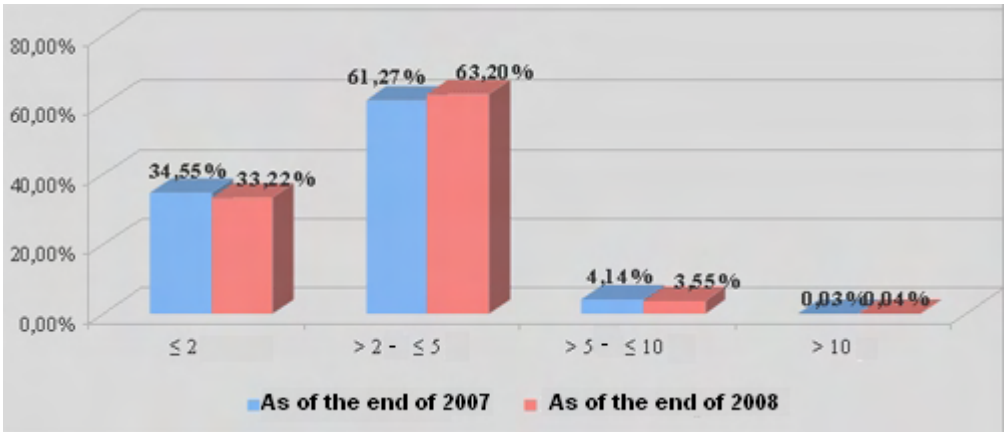


Diagram 11. *Average term of lease contracts as of the end of 2008 based on the value of contracts, years*

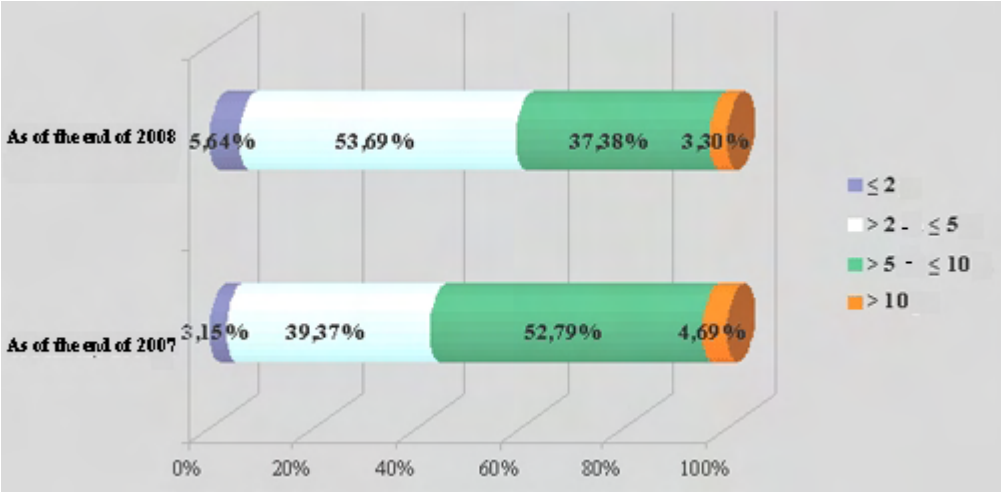


Diagram 12. *Sources of financing of lease transaction during 2008 as compared with the previous year*

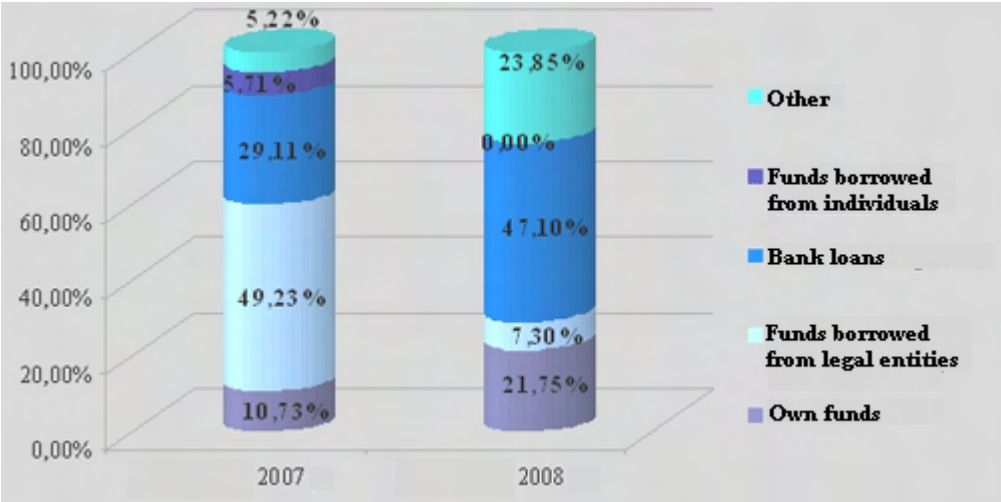


Diagram 13. *Distribution of leased assets by capital assets groups in 2008 based on their value*

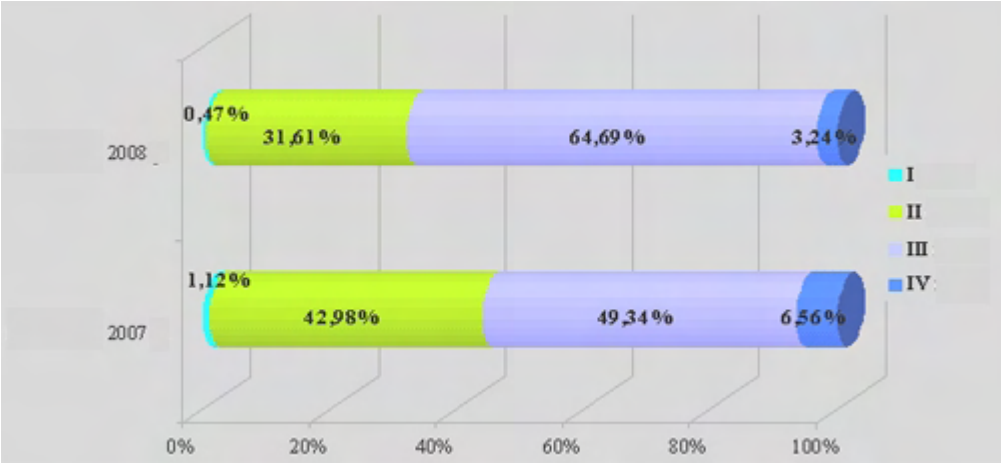
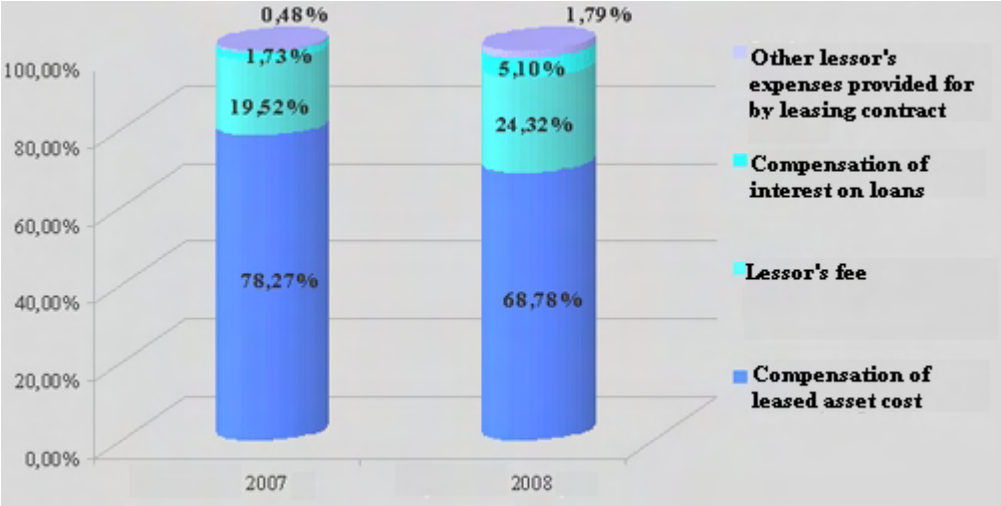


Diagram 14. *Lease payments structure in 2008 as compared with the previous year*


0,48%
1,79%
1,73%
5,10%
19,52%
24,32%
78,27%
68,78%
100,00%
80,00%
60,00%
40,00%
20,00%
0,00%
2007
2008
Other lessor's expenses provided for by leasing contract
Compensation of interest on loans
Lessor's fee
Compensation of leased asset cost

ATTACHMENT 21

ВИПУСК 3

ФАХІВЦЯМ ПРО ЛІЗИНГ

Вісник ГО “Союз “Сертифіковані спеціалісти лізингу”

У ВИПУСКУ:

ПРАКТИКА ОТРИМАННЯ ВИКОНАВЧОГО НАПИСУ НОТАРІУСА З ВИЛУЧЕННЯ ПРЕДМЕТА ЛІЗИНГУ У БОРЖНИКА......с. 1

КУРС ВАЛЮТИ СКАЧЕ – ЛІЗИНГОВИЙ ПЛАТІЖ ПЛАЧЕ.....с. 2

ДИНАМІКА РИНКУ ЛІЗИНГУ ЗА ПІДСУМКАМИ 2008 РОКУ.....с. 3

ДОВІРЕНІСТЬ, ПОДОРОЖНІ ЛИСТИ ЧИ ТИМЧАСОВИЙ РЕЄСТРАЦІЙНИЙ ТАЛОН? .....с. 4

ПРАКТИКА ОТРИМАННЯ ВИКОНАВЧОГО НАПИСУ НОТАРІУСА З ВИЛУЧЕННЯ ПРЕДМЕТА ЛІЗИНГУ У БОРЖНИКА

Останнім часом лізингодавці, на жаль, все частіше стикаються з необхідністю вилучення предмета лізингу у лізингоодержувача - боржника.

Чинне законодавство надає можливість вилучення предмета лізингу, наданого за договором фінансового лізингу, в безспірному порядку, тобто без необхідності звертатися до суду та отримувати відповідне судове рішення, на підставі якого, зазвичай, здійснюється вилучення майна за більшістю інших цивільно-правових договорів. Така можливість передбачена і Законом України ”Про фінансовий лізинг”, згідно з яким «лізингодавець має право відмовитися від договору лізингу та вимагати повернення предмета лізингу від лізингоодержувача у безспірному порядку на підставі виконавчого напису нотаріуса, якщо лізингоодержувач не сплатив лізинговий платіж частково або у повному обсязі, та прострочення сплати становить більше 30 днів». При цьому, «стягнення за виконавчим написом нотаріуса проводиться в порядку, встановленому Законом України ”Про виконавче провадження”.

Успішно здійснити вилучення наданого в лізинг обладнання або автомобіля лізингодавцю самостійно вдається не завжди – боржник може уникати добровільного повернення наданого в лізинг майна, приховувати його, не допускати представників лізингодавця для здійснення вилучення або іншим чином перешкоджати лізингодавцю. Отже, в таких, особливо складних, випадках саме залучення державної виконавчої служби може бути доцільним для вилучення предмета лізингу. Обов’язковою передумовою звернення до державної виконавчої служби, якщо лізингодавець хоче вилучити предмет лізингу в позасудовому порядку, є вчинення нотаріусом виконавчого напису на договорі лізингу.

Порядок вчинення нотаріусами виконавчих написів передбачений Інструкцією про порядок вчинення нотаріальних дій нотаріусами України, затвердженою наказом Міністерства юстиції України №20/5 від 03.03.2004 р., згідно з якою нотаріус вчиняє виконавчі написи: а) якщо подані документи підтверджують безспірність заборгованості або іншої відповідальності боржника перед кредитором; б) якщо з дня виникнення права вимоги минуло не більше 3-х років.

Заборгованість або інша відповідальність боржника визнається безспірною і не потребує додаткових доказів у випадках, якщо подані для вчинення виконавчого напису документи передбачені Переліком документів, за якими стягнення заборгованості провадиться у безспірному порядку, затвердженому постановою Кабінету Міністрів України (Постанова КМУ №1172 від 29.06.1999 р.). Відповідно до Переліку, для одержання виконавчого напису з вилучення предмету лізингу подаються: а) оригінал договору лізингу; б) засвідчена лізингодавцем копія рахунка, направленого лізингоодержувачу, з відміткою про несплату платежів після вручення письмового повідомлення.

Слід зазначити, що в Переліку не вказано вид договору лізингу – оперативний чи фінансовий, - а вказано тільки те, що договір повинен передбачати «у безспірному порядку повернення об'єкта лізингу». Таким чином, можливість отримання виконавчого напису є і для договорів оперативного лізингу. Головною причиною, за якою нотаріуси відмовляють в її здійсненні, є складність перевірки безспірності заборгованості лізингоодержувача, строку заборгованості та її розміру. *(Далі – стор. 2).*

Attachment 21: 3d Issue of the Certified Lease Specialists Union's Newsletter

Практика отримання виконавчого напису нотаріуса з вилучення предмета лізингу у боржника (початок на стор. 1)

Взагалі, для вчинення виконавчого напису немає необхідності доведення наявності заборгованості лізингоодержувача будь-якими іншими документами, ніж тими, що вказані в вищезазначеному переліку. В той же час, лізингоодержувач може оспорити виконавчий напис в судовому порядку не погоджуючись, наприклад, з заборгованістю, на підставі якої було вчинено виконавчий напис, що призведе до необхідності участі нотаріуса в судовому процесі, і відповідно, витрачання ним на це певного часу. Оскаржувати відмову нотаріуса у вчиненні виконавчого напису не варто – краще знайти нотаріуса, який вже має досвід вчинення виконавчих написів на договорах лізингу.

Хотілося б звернути увагу також на те, що для здійснення виконавчого напису не обов'язково, щоб договір лізингу був нотаріально засвідчений, оскільки він безпосередньо включений до вищезазначеного Переліку документів. Незважаючи на це, деякі нотаріуси відмовляють у вчиненні виконавчих написів на договорах лізингу, що не засвідчені нотаріально, мотивуючи це більшим ризиком того, що боржник оспорюватиме виконавчий напис нотаріуса в судовому порядку.

Враховуючи вищенаведене, лізингові компанії з метою отримання виконавчого напису нотаріуса вдаються до таких послідовних дій:

1. Повідомлення боржника про вимогу сплатити прострочену заборгованість та повернути предмет лізингу у разі несплати. Таке повідомлення бажано надсилати телеграмою з підтвердженням її вручення боржнику, а копію текста телеграми засвідчити печаткою відділення пошти, з якого була відправлена телеграма. Таким чином нотаріус зможе пересвідчитися в тому, що боржник дійсно був повідомлений про вимоги лізингодавця. Деякі нотаріуси самостійно направляють боржнику повідомлення про те, що у випадку несплати боржником заборгованості протягом певного терміну нотаріусом, за заявою лізингоодержувача, буде здійснений виконавчий напис щодо вилучення предмета лізингу.

2. Надання нотаріусу заяви на вчинення виконавчого напису, договору лізингу та засвідченої лізингодавцем копії рахунку на сплату лізингового платежу. На копії рахунку необхідно зазначити, що лізинговий платіж за цим рахунком не сплачений.

3. Здійснення нотаріусом виконавчого напису безпосередньо на документі, що встановлює заборгованість, тобто на договорі лізингу.

В заяві на вчинення виконавчого напису з вилучення предмета лізингу, зокрема, має бути зазначено: 1) відомості про найменування і адресу стягувача та боржника; 2) дата та місце народження боржника - фізичної особи, місце його роботи; 3) номери рахунків у банках, кредитних установах, код в ЄДРПОУ для юридичної особи; 4) строк, за який має провадитися стягнення; 5) інформація щодо предметів лізингу, що підлягатимуть витребуванню. За вчинення виконавчого напису сплачують державне мито, розмір якого складає 1% від початкової вартості предмета лізингу. В деяких випадках, наприклад, коли вартість предмета лізингу є незначною, нотаріус може вимагати сплати додатково 200 - 500 грн, і остаточна вартість вчинення виконавчого напису, таким чином, визначається за згодою сторін. Після вчинення виконавчого напису на договорі лізингу він передається до державної виконавчої служби для вилучення предмета лізингу. В наступному випуску ми розглянемо практику взаємодії лізингодавця з державною виконавчою службою.

Дмитро Богодухов, Генеральний директор ЗАТ "Лізинг ІТ", сертифікований спеціаліст лізингового бізнесу

КУРС ВАЛЮТИ СКАЧЕ – ЛІЗИНГОВИЙ ПЛАТІЖ ПЛАЧЕ

В нинішніх умовах нестабільності національної валюти, суттєвих коливань курсів іноземних валют та одночасного існування досить різних офіційного курсу (НБУ) та курсу, за яким реально можна купити або продати іноземну валюту, одним з важливих питань для лізингових компаній, є оцінка втрат (або доходів) від курсових різниць, їх правильне визначення і коректне відображення в бухгалтерському та податковому обліку.

> *Одним з головних стало "Чи вважають заборгованість, визначену як еквівалент суми в доларах США, заборгованістю в іноземній валюті відповідно до пп.7.3.3 ст.7 ЗУ "Про оподаткування прибутку підприємств"? Чи необхідно здійснювати перерахунок заборгованості у відповідності до п.7.3 ст.7 ЗУ "Про оподаткування прибутку підприємств" по договорах фінансового лізингу?*

Відповідно до пп.7.3.3 ст.7 ЗУ "Про оподаткування прибутку підприємств", перерахунку підлягає заборгованість, основна сума якої виражена в іноземній валюті на дату закінчення звітного періоду (її переоцінюють за курсом НБУ, що діяв на останній день звітного періоду). Різниця між балансовою вартістю заборгованості в іноземній валюті, що залишилась, та сумою заборгованості за курсом НБУ, що діяв на останній день звітного періоду, зараховують до складу валових доходів, або до складу валових витрат (доходи / витрати від курсових різниць). Згідно з вищезазначеним пунктом Закону "Про оподаткування прибутку підприємств" під терміном "заборгованість" розуміють вартість (непогашену частину вартості) предмета фінансового лізингу та платежі за користування предметом фінансового лізингу, строк оплати яких минув на дату закінчення звітного періоду. Згідно зі ст.180 Господарського Кодексу України (далі – ГКУ) ціна є істотною умовою договору (якщо між сторонами не досягнуто згоди щодо істотних умов договору, то договір вважається неукладеним). ГКУ визначає ціну (тариф) як форму грошового визначення вартості продукції (робіт, послуг), яку реалізують суб'єкти господарювання. При цьому встановлено, що ціна зазначається в договорі у гривнях. Ціни у зовнішньоекономічних договорах (контрактах) можуть визначатись в іноземній валюті за згодою сторін (ст. 189 ГКУ). Відповідно до ст. 509 Цивільного Кодексу України (далі – ЦКУ) зобов'язанням є правовідношення, в якому одна сторона (боржник) зобов'язана вчинити на користь другої сторони (кредитора) певну дію (передати майно, виконати роботу, надати послугу, сплатити гроші тощо) або утриматися від певної дії, а кредитор має право вимагати від боржника виконання його обов'язку. Згідно зі ст. 524 ЦКУ грошове зобов'язання має бути виражене у грошовій одиниці України – гривні. При цьому сторони можуть визначити грошовий еквівалент зобов'язання в іноземній валюті. Однак ст. 533 ЦКУ встановлює, що "грошове зобов'язання має бути виконане у гривнях". Таким чином, зобов'язання в іноземній валюті має бути сплачене в гривні за офіційним курсом національної валюти до відповідної іноземної валюти, що діє на день платежу за договором, якщо інший порядок визначення суми зобов'язання не встановлений договором, законом чи іншим нормативно-правовим актом. Разом з тим, ст.198 ГКУ передбачає, що грошові зобов'язання учасників господарських відносин виражаються і підлягають сплаті у гривнях. Грошові зобов'язання можуть бути виражені в іноземній валюті лише у випадках, якщо суб'єкти господарювання мають право проводити розрахунки між собою в іноземній валюті відповідно до законодавства. Чинне законодавство забороняє визначення зобов'язання в іноземній валюті при розрахунках між резидентами України в іноземній валюті. Оскільки в

більшості випадків і лізингова компанія, і лізингоодержувач є резидентами України, і заборгованість за лізинговим договором визначають в національній валюті, підстав для застосування пп.7.3.3 ст.7 ЗУ “Про оподаткування прибутку підприємств”, який встановлює порядок відображення в податковому обліку заборгованості в іноземній валюті, немає. Разом з тим, якщо для придбання предмета лізингу лізингова компанія використовує кредити банків, видані в іноземній валюті, вона має право застосувати в лізинговому договорі валютне застереження, тобто здійснити прив’язку величини гривневого лізингового платежу до можливих змін курсу гривні до валюти фінансування протягом дії лізингової угоди. Для цього використовують таку формулу: *Лізинговий платіж періоду = Лізинговий платіж згідно з графіком лізингового договору / курс НБУ грн/валюта фінансування на дату укладення договору х курс НБУ грн/валюта фінансування на дату сплати лізингового платежу за графіком.*

Переоцінці підлягає вся сума платежу, що, згідно з договором фінансового лізингу, включає як відшкодування вартості предмета лізингу, так і винагороду лізинговій компанії. Однак, основний засіб, переданий за договором фінансового лізингу лізингоодержувачу, представляє собою немонетарний актив, вартість якого не можна переоцінювати в залежності від змін курсів іноземних валют. Навіть якщо актив імпортують, тобто купують у іноземного постачальника за валюту, вартість його визначають за офіційним курсом гривні до валюти придбання на дату перетину кордону України.

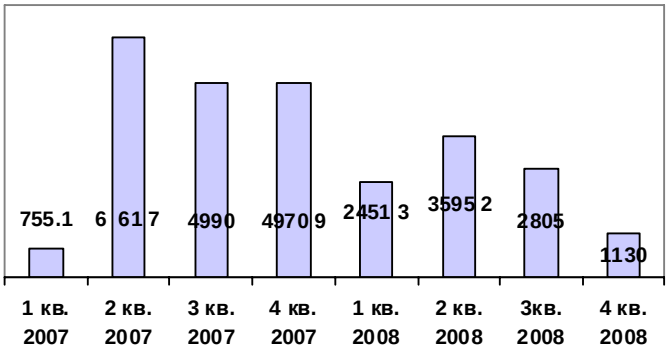
Таким чином, переоцінка лізингового платежу при зміні курсів гривні до валют фінансування придбання предмету лізингу повністю повинна відноситись до винагороди лізингової компанії, оскільки та частина лізингового платежу, що покриває вартість предмета лізингу, не повинна змінюватись взагалі. Проте, лізингодавці та лізингоотримувачі часто використовують підхід до відображення сум курсових різниць, який базується на п.5.10 ст.5 Закону України “Про оподаткування прибутку підприємств”, згідно з яким, якщо після продажу товарів (робіт, послуг) здійснюється будь-яка зміна суми компенсації їх вартості, включаючи перерахунок у випадках повернення проданих товарів чи права власності на такі товари (результати робіт, послуг) продавцю, платник податку-продавець та платник податку-покупець здійснюють відповідний перерахунок валових доходів або валових витрат (балансової вартості основних фондів) у звітному періоді, в якому сталася така зміна суми компенсації. У такій ситуації переоцінюють (в залежності від коливання курсу гривні до іноземних валют) також весь лізинговий платіж, але суму переоцінки розподіляють пропорційно на збільшення/зменшення відшкодування вартості майна і на збільшення/зменшення винагороди. Зрозуміло, подібний підхід передбачає зміну суми компенсації вартості майна, що вимагає від лізингодавця признання додаткових валових доходів (якщо офіційний курс гривні до іноземної валюти збільшується) або валових витрат (при ревальвації гривні). В той же час лізингоодержувач змінює (збільшує/зменшує) балансову вартість відповідної групи основних засобів (до якої відноситься предмет лізингу) та корегує амортизаційні відрахування.

Така методика не відповідає сутності фінансового лізингу та відображає неправильний підхід до оподаткування подібних операцій. Переоцінка лізингових платежів згідно з валютним застереженням, вказаним в договорі лізингу, має виходити зі статті 7.9.6. ЗУ “Про оподаткування прибутку підприємств”, відповідно до якої суми коштів, на які збільшився лізинговий платіж в результаті зміни валютного курсу, мають бути враховані в сумі винагороди лізингодавця та не впливають на суму заборгованості за предмет лізингу. Вказані кошти включають до складу валового доходу лізингової компанії та, відповідно, до складу валових витрат лізингоотримувача в період нарахування такої винагороди. Переоцінка лізингових платежів за офіційним курсом НБУ на дату їх сплати, що при виконанні договору фінансового лізингу включають до винагороди лізингової компанії, в більшості випадків (при нинішній суттєвій девальвації гривні) призводить до необхідності збільшувати лізинговий платіж на ПДВ, який виникає за умови, що винагорода перевищує подвійну облікову ставку НБУ (пп.3.2.2 ЗУ “Про ПДВ”). В такій ситуації у лізингодавця виникає відповідний податковий кредит, а у лізингової компанії – податкове зобов’язання зі сплати податку.

Науменко Наталя, директор аудиторсько-консалтингової групи “Компас”, сертифікований спеціаліст лізингового бізнесу

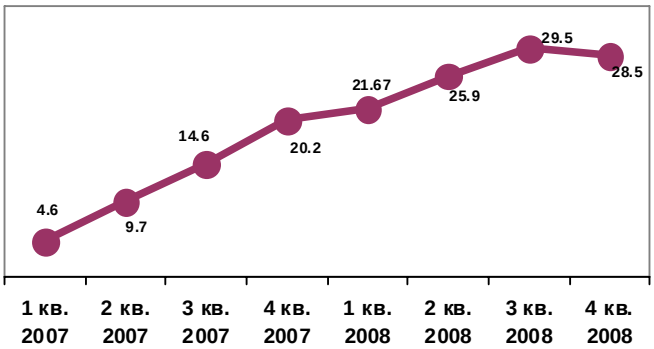
ДИНАМІКА РИНКУ ЛІЗИНГУ ЗА ПІДСУМКАМИ 2008 РОКУ

За даними Державної комісії з регулювання ринків фінансових послуг, протягом 2008 року було укладено 9682 договорів фінансового лізингу на загальну суму 9,98 млрд. грн., що свідчить про суттєве зниження (близько 40%) темпів зростання ринку порівняно з минулим роком (див. Діаграму 1).



Діаграма 1. ***Вартість договорів фінансового лізингу, укладених протягом кварталу, млн. грн.***

Вартість об'єктів лізингу, що є предметом договорів, укладених протягом 2008 року, склала 7,74 млрд. грн. порівняно з 11,66 млрд. грн. у 2007 році. Станом на 31.12.2008 року портфель лізингових угод склав 28,5 млрд. грн. (17 586 договорів). Динаміка портфелю за 2007-2008 рр. представлена на Діаграмі 2.



Діаграма 2. ***Вартість чинних договорів фінансового лізингу на кінець кварталу, млрд. грн.***

ДОВІРЕНІСТЬ, ПОДОРОЖНІ ЛИСТИ ЧИ ТИМЧАСОВИЙ РЕЄСТРАЦІЙНИЙ ТАЛОН?

Зазвичай у кожної лізингової компанії в Україні сформувалися свої правила та процедури щодо користування співробітниками підприємств - лізингоодержувачів автомобілями, переданими в лізинг, оскільки закони та нормативні акти, що регулюють питання користування автомобілями, дісталися нам у спадок з радянських часів і досить неадекватно відображають сучасну реальність. Кожна компанія по-своєму відповіла на питання, що стосуються правил використання службових автомобілів в Україні. Постараємося, використовуючи власний практичний досвід, інформацію з відкритих джерел та коментарі юристів, надати відповідь на запитання - *Який документ дає право на керування автомобілем, зареєстрованим на юридичну особу: довіреність, подорожній лист чи тимчасовий реєстраційний талон?*

Це питання можна розглянути з різних точок зору - юридичної, господарської і, природно, бюрократичної. Закони України дають фундаментальне право користуватися майном на правах володіння, а також передавати це право іншим особам. Таке право може бути оформлене дорученням. І закон (Цивільний кодекс України) не вимагає нотаріального посвідчення довіреності на керування транспортним засобом. Отже, довіреність є повноцінним документом на керування автомобілем.

Подорожній лист легкового автомобіля та правила його використання описані в Указі Державного комітету статистики України № 74 від 17.02.1998, згідно з яким подорожній лист служить, в першу чергу, підставою для обліку транспортної роботи водія і для списання паливно-мастильних матеріалів. Творці документа, мабуть, не були знайомі з поняттям "Benefit car" або "Company car" - коли автомобіль надається співробітнику і для здійснення робочих обов'язків, і для особистого користування, що на сьогодні є переважною практикою використання службових автомобілів. Ось і існує норма, за якою оформлення щоденного подорожнього листа з проходженням усіх необхідних служб автотранспортного підприємства - диспетчера, механіка, лікаря – є обов'язковим. Твердження про те, що саме подорожній лист дає право на керування автомобілем не зовсім вірно. Власник дає право керування на основі трудового договору, а подорожній лист є документом, що підтверджує правомірність керування транспортним засобом з боку даного водія. Стаття 126 Кодексу України про адміністративні правопорушення вказує на необхідність пред'явлення належним чином заповненого подорожнього листа у випадках, передбачених законодавством. Мабуть, вищезгаданий указ Держкомстату України і є цей випадок. Отже, у разі управління автомобілем компанії, водій повинен мати при собі правильно заповнений подорожній лист.

Найбільш одіозним документом останнього часу став тимчасовий реєстраційний талон (який виглядає як тимчасове свідоцтво про реєстрацію транспортного засобу, але виконує іншу функцію - реєструє особу, якій довіряють управління). Даний документ вже давно присутній в Правилах дорожнього руху, що є підзаконним актом, затвердженим Кабінетом Міністрів України. Він був альтернативою довіреності на керування автотранспортним засобом, тільки набагато менш популярною. Так він собі і існував би, поки розмір відповідальності за його відсутність у вигляді штрафу не виріс в рази, і його наявність не стала ретельно перевірятися співробітниками ДАІ. Відтоді досить проста процедура отримання такого талона в минулому, раптово стала складною справою з усіма корупційними складовими – "прискорювачі" в МРЕО, сприяння в оформленні без надання машини та інше.

Обов'язковість в отриманні тимчасового реєстраційного талону підступно пожартувала з бізнесом лізингу автомобілів - адже талон являє собою тимчасове свідоцтво про реєстрацію транспортного засобу, отже, для передачі права управління іншій юридичній особі згідно з договором лізингу, остання і має поставити автомобіль на тимчасовий облік на своє ім'я. Це призводить до необхідності реєстрації автогосподарства зі всіма атрибутами і завдає удару по одному з головних переваг лізингу - використання найманих автомобілів без організації у лізингоодержувача автогосподарства і відволікання відповідного штату співробітників на заняття автомобільними справами, часто досить далекими від профілю компанії. Велика частка лізингових компаній знайшли вихід із ситуації, що склалася в оформленні тимчасових реєстраційних талонів на конкретних співробітників підприємств - лізингоодержувачів. Процедура досить фінансово витратна і незграбна. Протягом усього часу "ренесансу" талону, йшли суперечки про законність штрафів за його відсутність та про колізії щодо його правової суті - адже талон описаний тільки в підзаконних актах (Правила дорожнього руху), а в законі (Цивільний Кодекс) його існування не передбачено. Біда пішла так само раптово, як і прийшла - обов'язковість тимчасового реєстраційного талону скасували на одному з останніх засідань Кабінету Міністрів України після численних протестів активістів захисту прав автомобілістів. ...

(Статтю повністю див. на сайті www.leasepro.org в розділі «База знань»).

НОВИНИ СОЮЗУ

В рамках діяльності Союзу було створено Робочу групу, що займається питаннями забезпечення поточної діяльності організації, в тому числі й пошуком грантів для подальшого фінансування діяльності Союзу. До складу Робочої групи увійшли президент Союзу Д. Богодухов, член Ради Союзу Л. Шкурка, сертифіковані спеціалісти лізингового бізнесу – Ю. Васін, Ю. Волосніков, А. Черномаз та представник проекту "Ініціатива сприяння кредитуванню" Л. Снігір.

НОВИНИ ПРОГРАМИ СЕРТИФІКАЦІЇ

Лютий

12 спеціалістів лізингу з 36, які складали іспити у листопаді 2008 р., отримали Сертифікати спеціаліста лізингового бізнесу на IV загальних зборах Союзу. Загальна кількість сертифікованих спеціалістів лізингу на початок 2009 року становить 95 осіб.

Березень

З 13 березня розпочинається тренінг за Програмою сертифікації.

Квітень

25-26 квітня - складання кваліфікаційних екзаменів за Програмою сертифікації.

Додаткова інформація про Програму сертифікації спеціалістів лізингового бізнесу та ГО "Союз "Сертифіковані спеціалісти лізингу":

Лілія Снігір, радник з лізингу (044) 537-0966,
проект "Ініціатива сприяння кредитуванню"
www.atci.com.ua

Лариса Шкурка, заступник директора (044) 428-8893,
аудиторсько-консалтингова група "Компас"
www.kompas.com.ua

ATTACHMENT 22

Bank	Leasing Company	Types of Leased Assets	Leasing Portfolio (as of January 1, 2008), in million, UAH	Leasing Portfolio (as of January 1, 2009), in million, UAH	New Leases (in 2007), in million, UAH	New Leases (in 2007), in million, UAH	Comments
Raiffeisen Bank Aval (Austria)	Raiffeisen Leasing Aval	Construction equipment (40%), agricultural equipment (24%), trucks (18%), passenger vehicles (4%)	929.1	1,879.99	847.9	1,039.51	Is reported to control 14% of the Ukrainian leasing market. Works only with legal entities.
UniCredit Bank (Italy)	UniCredit Leasing	Industrial and construction equipment (60%), commercial vehicles (30%), passenger cars (10%)	473.6	1,646.10	475.4	1,276.60	Sees great potential for real estate projects to be financed through leasing
BNP Paribas (France)	Ukrainian Leasing Company	Motor vehicles, railway transport, industrial machinery, commercial real estate	357.3		365.1		Applies alternative method of financing – "trade-in" – when purchase of new equipment is financed with used equipment being a downpayment.
ING Bank (Netherlands)	ING Leasing Ukraine	Commercial real estate, industrial machinery, construction equipment, large	-	625.86	-	748.65	Started operations in January, 2008. Focused on working with large Ukrainian and

		vehicles					foreign companies, first of all, with existing customers of ING Bank
Parex Bank (Latvia)	Lasca Leasing	Vehicles, special purpose machinery, equipment, commercial real estate	346.9	514	162.0	305	Renders only financial leasing services
Societe Generale (France)	ALD Automotive (First Leasing Company) Societe Generale Equipment Leasing	Motor vehicles Vehicles, industrial and high-tech equipment	193.8	427.7 486.88	108.0	303.5 656.54	
Ukio Bank (Lithuania)	Ukio Bank Leasing	Vehicles, machinery, commercial real estate	69.4	113.69	73.6	76.99	Started operations in 2007. Renders only financial leasing services
Credit Europe Bank (Finans International Holding, Netherlands) (Finansbank, Turkey)	Credit Europe Leasing	Vehicles, construction equipment and road-building machinery	18.0	200.60	3.0	255.48	Renders lease-back services

VTB Bank (Russia)	VTB Leasing Ukraine	Railway transport, other vehicles	6,869.1	5,746.98	4,833.6	2414.47	Has contracts with Ukrzaliznytsya (Ukrainian Railroads) for leasing of railcars which account for most of its portfolio. Renders only financial leasing services
SEB Bank (Sweden)	-	Commercial vehicles, passenger cars, equipment					Volume of leasing transactions is insignificant

VTB Bank (Russia)	VTB Leasing Ukraine	Railway transport, other vehicles	6,869.1	5,746.98	4,833.6	2414.47	Has contracts with Ukrzaliznytsya (Ukrainian Railroads) for leasing of railcars which account for most of its portfolio. Renders only financial leasing services
SEB Bank (Sweden)	-	Commercial vehicles, passenger cars, equipment					Volume of leasing transactions is insignificant

ATTACHMENT 23

БЮРО КРЕДИТНИХ ІСТОРІЙ В УКРАЇНІ

(ліцензовані Міністерством юстиції України):

УКРАЇНСЬКЕ БЮРО КРЕДИТНИХ ІСТОРІЙ
м. Київ, вул. Грушевського, 1-Д
Тел.: +38 (044) 593-8422
www.ubki.com.ua

ПЕРШЕ ВСЕУКРАЇНСЬКЕ БЮРО КРЕДИТНИХ ІСТОРІЙ
м. Київ, вул. Марини Раскової, 11
Тел.: +38 (044) 390-5470
www.pvbki.com

МІЖНАРОДНЕ БЮРО КРЕДИТНИХ ІСТОРІЙ
м. Київ, вул. Мельникова, 81-А
Тел.: +38 (044) 207-5971
www.credithistory.com.ua

БЮРО КРЕДИТНИХ ІСТОРІЙ «РУССКИЙ СТАНДАРТ»
м. Київ, вул. Половецька, 3/42
Тел.: +38 (044) 490-2303

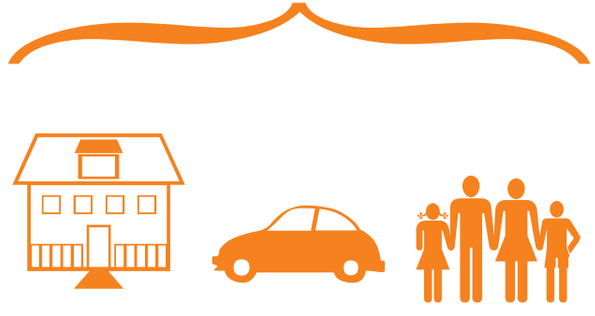
БЮРО КРЕДИТНИХ ІСТОРІЙ «ДАТА МАЙНІНГ ГРУП»
м. Київ, вул. Десятинна, 4/6
Тел.: +38 (044) 496-6788
www.datamg.com.ua

Довідкову інформацію про діяльність
Бюро кредитних історій
дивись
на веб-сторінці
Міністерства юстиції України

www.minjust.gov.ua

Буклет підготовлено за підтримки американського народу, наданій через Агентство США з міжнародного розвитку (USAID) в рамках проекту «Ініціатива сприяння кредитуванню» (www.atci.com.ua).
Зміст буклету передає погляди Корпорації «Прагма», що впроваджує проект, і може не співпадати з поглядами Агентства США з міжнародного розвитку або Уряду Сполучених Штатів Америки.

КРЕДИТНА ІСТОРІЯ: ЩО ЦЕ І ЧОМУ ЦЕ ВАС СТОСУЄТЬСЯ?



Кредитна історія: що це і чому це ВАС стосується?

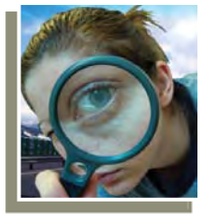
1. ЩО ТАКЕ КРЕДИТНА ІСТОРІЯ?

Кредитна історія – це електронний запис, який містить інформацію про грошові зобов‘язання фізичної або юридичної особи, та показує її платіжну дисципліну та добросовісну репутацію як позичальника.

Бюро кредитних історій надають кредитний звіт – *повне або часткове відображення кредитної історії* – на запит тільки тих фінансово-кредитних установ, які уклали договір з Бюро та отримали письмову згоду позичальника (положення кредитного договору) на доступ до його кредитної історії.

Кредитна історія зберігається у Бюро кредитних історій протягом 10 років з дати виконання позичальником кредитного договору.

2. ЩО ТАКЕ БЮРО КРЕДИТНИХ ІСТОРІЙ, І ЯК ІНФОРМАЦІЯ ПОТРАПЛЯЄ ДО БЮРО?



Бюро кредитних історій – це юридична особа, виключною діяльністю якої, відповідно до Закону та ліцензії Міністерства юстиції України, є збір, зберігання та надання на запит фінансово-кредитних установ даних щодо виконання грошових зобов‘язань юридичних або фізичних осіб – позичальників.

Бюро кредитних історій отримує інформацію щодо позичальників від банків, страхових компаній, лізингових компаній, кредитних спілок, інших фінансових інститутів і суб’єктів господарської діяльності, які надають послуги з відстроченням платежу або надають майно в кредит.

3. І ЩО? ЯК ЦЕ МЕНЕ СТОСУЄТЬСЯ?

Позитивна кредитна історія:

1) підтверджує Вашу платоспроможність та платіжну дисципліну, й, відповідно, прискорює оформлення кредиту;
2) надає Вам переваги перед позичальниками, які не мають кредитної історії;
3) підвищує можливість зниження відсоткової ставки за новими кредитами.

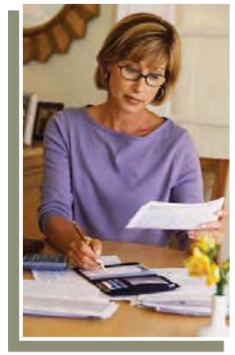
4. ЯК Я МОЖУ СТВОРИТИ ВЛАСНУ КРЕДИТНУ ІСТОРІЮ?

Для створення кредитної історії позичальник при зверненні до фінансово-кредитної установи з метою отримання кредиту надає згоду на доступ до своєї кредитної історії, збір, зберігання, використання та поширення через Бюро кредитних історій інформації, яка складає його кредитну історію.

5. ЯК Я МОЖУ ПЕРЕВІРИТИ КОРЕКТНІСТЬ ІНФОРМАЦІЇ В МОЇЙ КРЕДИТНІЙ ІСТОРІЇ?

Ви маєте право звернутися до Бюро кредитних історій та:

1) безкоштовно отримати свій кредитний звіт один раз на рік або на платній основі, якщо Ви звертаєтеся до Бюро за кредитною історією частіше;
2) дізнатися, які фінансово-кредитні установи надсилали запит щодо Вас до Бюро кредитних історій;
3) у випадку незгоди з деякими даними з Вашої кредитної історії – опротестувати ці дані. Ваш письмовий коментар, у разі підтвердження правдивості інформації в ньому, буде додано до Вашої кредитної історії.



6. ХТО МАЄ ДОСТУП ДО МОЄЇ КРЕДИТНОЇ ІСТОРІЇ?

Доступ до Вашої кредитної історії має тільки та фінансово-кредитна установа, якій Ви у кредитному договорі надаєте на це право. Згідно з законодавством України, Бюро кредитних історій забезпечують захист інформації, що складає Вашу кредитну історію.

7. ЧИ З‘ЯВИТЬСЯ У МОЇЙ КРЕДИТНІЙ ІСТОРІЇ ЗАПИС ПРО ВІДМОВУ У НАДАННІ КРЕДИТУ?

Ні, не з‘явиться. Кредитна історія містить тільки фактичні дані про виконання грошових зобов‘язань.

CREDIT HISTORY: WHAT IS IT AND WHY SHOULD YOU CARE

1. What is a Credit History?

A Credit History is an electronic record consisting data on monetary liabilities of a natural person or of a legal entity, and demonstrating its payment discipline and bona fide reputation as of a borrower.

Credit Bureaus give *a credit report* – a credit history copy or an extract from a credit history – upon request of those banks and credit institutions only which have both a corresponding agreement with the Credit Bureau and a written consent of a Borrower for transfer of information on his Credit History to a Credit Bureau during the whole period of validity of the loan agreement.

Credit Bureaus keep Credit Histories for the 10 years term starting from termination of a loan agreement.

2. What is a Credit Bureau, and how data gets there?

A Credit Bureau is a legal entity with exclusive focus on gathering, storage, and utilization of data on monetary liabilities of borrowers - natural persons and legal entities.

Credit Bureaus receive information on the borrowers from banks, insurance companies, leasing companies, credit unions and other financial institutions and companies which provide services with delayed payment or give loans.

3. So what? Why shall I care about the credit history?

A Credit History:

1) proves your paying capacity and payment discipline, and consequently expedites the procedure of loan granting;
2) gives you advantage over other borrowers who don't have credit histories;
3) increases your chance to have lower interest rates on future loans.

4. How may I create my Credit History?

To create a Credit History, a borrower, while applying for a loan, gives his consent for access to his Credit History, collection, storage, and utilization of his Credit History data by the Credit Bureau.

5. How I can be sure that data in my Credit History is accurate?

You have the right to apply to a Credit Bureau and:

1) receive a free Credit Report once a year;
2) learn what financial institutions requested your credit report;
3) appeal against some inaccurate data in your Credit History. Once proved truthful your written comment will be incorporated into your Credit History.

6. Who has access to my Credit History?

The financial institution only which you granted that right in a loan agreement may access your Credit History. Credit Bureaus protect the information constituting your Credit History, as legislation prescribes.

7. Will the refusal from granting me a loan be recorded in my Credit History?
No, it won't. A Credit History only figures the facts on financial liabilities of a borrower.

List of Credit Bureaus operating in Ukraine
(Including their mailing addresses, telephone numbers and www)

ATTACHMENT 24

BIG MONEY
BLITZ INTERVIEW

Rick Dvorin, Chief of Party, Access to Credit Initiative, Project funded by USAID

How does financial crisis change methodology for assessing quality of credit histories in the West and in Ukraine?

– According to my data, changes in the West touch on statistical methodologies or scoring methodologies (solvency assessment – Note by "Vlast Deneg"). In the USA, requirements to scoring assessments may be lowered for the consumers to be able to get a loan. At the same time, in Great Britain credit bureaus can lower assessment for employees of the financial institutions and mortgage specialists. Previously, such borrowers were considered more reliable.

But in Ukraine, use of scoring is just at its beginning. Different credit bureaus try to suggest to the banks their scoring methodologies, but the very practice is not developed here.

How can Ukrainian borrowers level the negative in their credit histories?

— An important role is played by the timely fulfillment of liabilities on payment for communal services and other financial obligations. You can all the time take short-term loans and repay them in a timely manner. This is a foreign practice for improvement of solvency level: the clients with problem big loans can soften the negative side of their credit history with a large number of successfully repaid small loans. It is better to bring settlements on several credit cards to one credit card.

There are five credit bureaus operating in Ukraine. Unfortunately, they do not exchange information with each other. That is why it is desirable for the borrower to go to all credit bureaus, and to give them the missing information, or to correct the incorrect information.

As experience shows, the Ukrainian borrowers with well-doing credit histories cannot count on discounts or improved tariffs for financial services. What do you think, who can correct this unfairness and how?

— I believe that the market itself will improve the situation. You should understand that a financial institution exists with the only purpose – to make money. But a person with good credit history must be able to get privileged terms on the loan, and to pay lower interest rates. On the one hand, the final decision is taken by the financial institution. On the other hand, the client with excellent payment reputation must have a chance to receive better terms that a person with overdue payments. And the borrower can choose between different banks. This is the freedom of choice in the market.

What improvements to legislation in the field of credit histories regulation are needed, in your opinion?

— The Ministry of Justice is currently developing the draft Law on introduction of changes to the Laws of Ukraine "On State Tax Administration" and "On State Registry of Individuals-Taxpayers and Other Compulsory Payments". It implies that credit histories bureaus (CHB) could be entitled to receive information from the State Tax Administration of Ukraine.

It is vitally important to maintain confidentiality of credit histories as well as information they contain. Developed countries employ very good information disclosure practice when information about the borrower could be disclosed only upon his written consent or due to some legitimate reasons specified by the legislation. For example, when new credit transactions are performed or parties enter into insurance agreements. If a citizen is looking for a new job, a prospective employer might check his credit history. The information could be disclosed based on the court decision.

Some of Ukrainian credit bureaus are ready to provide information to collectors which buy back the right of demand on loans from the banks. Pursuant to the law collectors are not entitled to receive such data however nothing prevents them from getting the license of a financial company and under some conditions they could get access to credit bureaus. This collision could be resolved in several ways:

1) specify in the effective Law of Ukraine "On Organization**,** Formation and Circulation of Credit Histories**"** an exclusive list of the credit bureau clients who will have a right to request information: banks, insurance companies, credit unions.

2) specify that not every financial company has a right to request information from credit bureaus, it concerns only those financial companies which issue loans provided they have a loan application from specific borrower along with his written consent to compile his credit history.

3) It is necessary to indicate in the Law the essence of credit bureaus activity - formation and maintenance of credit histories in order to streamline assessment of the borrower by the creditor and in such manner to grant the borrower with positive credit history special privileges among other borrowers who have negative credit histories or do not have them at all.

I believe that credit history serves as a tool to decide whether to provide financial services. Collecting companies have no reasons to use this information! Such practice is immoral and illegal! If I were a monitoring agency I would deprive credit bureaus of a license if they transfer information to the third parties who do not have "permissible purposes" or who are not authorized to receive this information. For the time being, the market is awaiting official response regarding this matter from the Ministry of Justice of Ukraine which has already made some steps in this direction. For example, the Ministry of Justice prohibited the banks from transferring information on their borrowers to collecting agencies by cancelling on February 27 the state registration of item 2 of the NBU Resolution No. 428 dated November 9, 2006 which changed the "Rules for Preservation, Protection, Use and Disclosure of Banking Secrets".

Information contained in the credit history could effect interest rates on issued loans depending on the policy of the financial institution providing the credits, but in Ukraine this may not be the current practice.

By Margarita Ormotsadze

ATTACHMENT 25

Draft

LAW OF UKRAINE

On rating system in Ukraine

This Law shall establish a legal foundation for determining credit ratings and activities of rating agencies.

Article 1. Term definitions

1. The terms used in this Law shall have the following meanings:

1) rating shall mean a conditional indicator of credit risk related to the object of rating determined by a rating agency pursuant to its own rating scale;

2) determining a rating shall mean assigning, updating, suspending, recalling and forecasting a rating;

3) recalling a rating shall mean a decision of the rating committee in the process of monitoring the rating as a result of which rating is recalled and is considered invalid;

4) rating activity shall mean an activity of a rating agency intended to determine a rating;

5) credit rating of an issuer (borrower) shall mean a characteristic of the level of securities issuer's (borrower's) ability to timely and fully pay interest and principal in accordance with its debt obligations in respect of debt obligations of other issuers (borrowers);

6) credit rating of debt securities shall mean a characteristic of the level of issuer's ability to timely and fully discharge its obligations under debt securities;

7) rating object shall mean an issuer (borrower) and/ or its debt securities;

8) updating a rating shall mean a decision of the rating committee in the process of monitoring the rating resulting in a confirmation or change of the rating;

9) related person:

a legal entity exercising control over the relevant legal entity or is controlled by the relevant legal entity or is under common control with such legal entity;

a natural person or their family who control the relevant legal entity (family members of a natural person shall be considered their spouse, children or parents of both the natural person and their spouse as well as those of the spouse of any of natural person's children or parents);

an officer of the relevant legal entity authorized to carry out legal actions on behalf of such legal entity intended to establish, change or terminate legal relations as well as family members of such officer.

Exercising control shall mean holding, directly or through related natural or legal persons, the largest share (participatory share, stake of shares), which is at least 20 per cent of the legal person's charter capital or managing the biggest number of votes in the legal person's governing body. For a natural person, the total amount of holding a share in the charter capital of a legal entity (votes in the governing body) shall be determined as a total amount of corporate rights held by such natural person, their family members and legal entities controlled by such natural person or members of their family;

10) suspending a rating shall mean a decision of the rating committee in the process of monitoring the rating resulting in a suspension of the rating during an established term;

11) rating forecast shall mean an opinion regarding the fulfillment by the rating object of obligations arising with due regard to possible changes in the economic environment. It may be negative or positive, stable or developing;

12) rating committee shall mean a panel standing body of a rating agency consisting of rating agency employees and approving decisions on assigning ratings, etc.;

13) rating scale shall mean an aggregate of levels each determining a certain group of factors characterizing credit risks related to the rating object;

14) rating system shall mean an aggregate of legal relations related to determining ratings, between the rating agency and issuers (borrowers) who (or whose borrowings) are objects of rating.

Article 2. Principles of the rating system

1. The rating system shall be based on the following principles:

1) voluntary nature of determining ratings;
2) ensuring a competitive basis of rating activity;
3) independence of the rating agency of any external or internal influence in carrying out rating activity;
4) legal stipulation of conditions for carrying out rating activity;
5) interest of financial market participants in determining ratings;
6) economic interest of the issuer (borrower) in it or its borrowings being rated;
7) objectivity of determining ratings;
8) publicity of determining ratings;
9) observing business ethics principles;
10) decisions taken by a panel;
11) responsibility of the rating agency for violating current legislation;
12) state regulation of rating activity and supervision over it.

2. In the course of their activity, rating agencies shall use their own the rating methodology based on the principles stipulated by part one of this Article.

Article 3. Types of ratings

1. The rating agency may assign the following types of ratings:

1) credit rating of the issuer (borrower);
2) credit rating of debt securities.

2. Credit ratings may be short-term (characterizing credit risk over a short period, up to one year) or long-term (characterizing credit risk over a long period – over one year).

4. A rating agency shall have the right to assign other types of ratings except credit.

Article 4. Agreement on rating

1. The agreement on rating (the "Agreement") shall be an agreement between the rating agency and the issuer (borrower) on rating the rating object.

2. The procedure for publicizing the rating stipulated by the Agreement may not be changed of the term of this Agreement.

3. If the rating object is debt securities, the term of the Agreement shall correspond to the term till maturity of the securities issue.

Article 5. Rating agencies

1. A rating agency shall meet the following requirements:

1) it shall be a legal entity;

2) its founders (owners, shareholders, participants) shall not include related persons of financial services market participants;

3) it shall have an official website freely accessible to user

4) it shall have at least 10 employees with education at least that of a specialist in finance and/or economy with at least two years of professional experience;

5) it shall own information infrastructure sufficient to effectively collect, process and analyze data on the rating object;

namely:
telephone lines – at least five;
computers– as many as the specialists but no fewer than 12;
a fax machine;

Internet access and Internet e-mail;

6) it shall have its own rating methodology and its own rating scale.

2. A legal entity intending to carry out a rating activity in Ukraine shall give a written notice to the Securities and Stock Market State Commission in a free format, attached to which must be the documents confirming its meeting requirements of part one of this Article:

1) copies of the charter and state registration certificate of a resident legal entity certified in accordance with the procedure stipulated by law and, in the case of a non-resident, notarized copies of the document confirming its registration as a legal entity and a Ukrainian translation of its charter;

2) a copy of the statement of the State Statistics Committee of Ukraine on including the resident legal entity in the Unified State Registry of Legal Entities certified in accordance with the procedure established by law;

3) information about branches and representations of the legal entity;

4) information about legal entity's participating in any associations of enterprises;

5) information about officers of legal entity's governing bodies, number and value of stocks (the size of shares, participatory shares) that they hold;

6) information about founders and/ or participants and/ or shareholders of the legal entity, the number and value of stocks (the size of shares, participatory shares) that they hold;

7) information about business entities in which the legal entity holds or manages (uses) shares (stocks, participatory shares);

8) information about the number of employees (staff and freelancers) of a legal entity and documents confirming their qualifications and work experience: a copy of the diploma and work record of each employee;

9) information about the founders, shareholders, participants of the legal entities holding over 10% in the charter capital of the applicant (underlining professional securities market participants);

10) a statement to the effect that the management does not include persons that are officers of securities market participants and/ or officers in entities affiliated with securities market participants;

11) documents confirming the availability of the information infrastructure and means sufficient for effectively collecting, processing, analyzing data and publicizing information about the assigned credit ratings (the number of telephone lines, computers, faxes, the availability of a modem ling, an Internet e-mail, own mass media, etc.): copies of agreements with providers of telephone communications, copies of agreements with Internet service providers and for official website maintenance services;

12) own rating methodology and own rating scale.

3. The Commission shall not be entitled to set additional requirements to rating agencies and/ or require documents not stipulated by

this Article.

4. Within 20 days of receiving a notice, the Commission shall resolve on including the legal entity in the State Registry of Rating Agencies or give a justified written refusal.

5. During 5 working days, the rating agency shall notify Commission in writing of a change in information that was provided for registration.

6. The rating agency shall carry out its rating activity in accordance with its own rating methodology and by its own rating scale.

7. A rating agency shall use different rating scales for structured securities and for ordinary debt securities.

8. Rating and all following changes thereto (updating, suspending, recalling) shall be publicized subject to issuer's (borrower's) approval through:

1) posting on the rating agency's website during three days after determining the rating;

2) monthly publication of ratings determined in a relevant month in the selected printed mass medium.

Information about the printed mass medium selected by the rating agency shall be posted on the website of this agency within three working days after selecting such printed mass medium.

9. During 5 working days after being included in the Registry of Rating Agency or the occurrence of relevant changes, the rating agency shall publicize the following information on the rating agency website or in a specialized printed mass medium selected in accordance with paragraph 2 of part eight of this Article:

1) own rating methodology and own rating scale as well as changes thereto;

2) information about the percentage of non-payments on issuers' (borrowers') debt obligations at each rating level and changes to this percentage occurring every six months;

3) fundamentals of the pricing polity and changes thereto.

10. The rating agency shall not act as a guarantor and shall not bear responsibility for obligations of the rating object.

11. Using rating agency services and ratings determined by them shall be voluntary.

12. Rating activity shall be an exclusive activity.

13. A rating agency shall maintain confidentiality of information that is not freely accessible provided to those by the issuer (borrower) under terms of the confidentiality agreement or other mutual arrangement on information confidentiality.

14. Rating agencies shall annually provide information about results of their activities to the Commission in accordance with the procedure established by it.

The Commission shall ensure publicizing information about the results of activities of rating agencies on the official website and in its own periodic publications.

15. A rating agency shall appoint a responsible employee to ensure compliance of activities of the rating agency and its employees with this Law.

16. If the rating agency resolves on discontinuing the rating activity, it shall notify the Commission of such decision in writing during five working days.

Article 6. State registry of rating agencies

1. The State Registry of Rating Agencies (the "Registry") shall be an aggregate of data on rating agencies.

The Registry shall be maintained by the Commission in accordance with the procedure established by it.

The Commission shall compile the Registry based on information received from rating agencies regarding their conformity to the requirements of this Law and regarding their intention to carry out rating activity as well as delete rating agency entries from this Registry.

2. The grounds for deleting rating agencies from the Registry shall be:

1) a written rating agency notice of discontinuing its rating activity;

2) not carrying out rating activity during one calendar year after having been included in the Registry;

3) including in the Registry as a result of submitting deliberately unfair information;

4) rating agency's not complying with the requirements established by this law, which incompliance occurred after its having been included in the Registry;

5) rating agency's not publicizing information in the amount and in accordance with the procedure stipulated by this Law, publicizing such information incompletely and/ or publicizing unfair information;

6) systematic violation of this Law and other legislation of Ukraine by the rating agency;

7) non-payment on issuer's (borrower's) debt obligations, if rating of the rating object has been determined by the rating agency as an investment-grade rating.

3. The Commission shall ensure publicizing information from the State Registry of Rating Agencies on the official website and in own periodic publications. A decision on including a legal entity in the Registry shall be publicized within three working days from approving the decision.

Article 7. Determining ratings

1. Ratings shall be determined by a working group approved by executive order of rating agency's manager. The group using its own rating methodology shall analyze information about the rating object and prepare appropriate documents for the meeting of the rating committee. The rating committee shall resolve on determining the rating and approve a relevant report.

The rating report shall be an official document bearing a signature of the authorized person and the seal of the rating agency. It shall be prepared in accordance with the established procedure based on the results of determining the rating and shall contain an opinion regarding the analysis of the provided data, the determined rating and explanations it its regard.

2. If the determined rating is not considered appropriate by the issuer (borrower) and it has grounds to believe that, in the course of determining the rating, material factors were not taken into account that have an impact on the rating, the issuer (borrower) shall be entitled, during 10 working days after receiving the rating report, lodge a justified appeal with the rating committee.

After analyzing the appeal, the rating committee shall take a final decision on rating that shall not be subject to appeal.

The appeal procedure shall not have an impact on the rights of the issuer (borrower) regarding consent to publish the rating determined for the first time based on the Agreement.

3. After assigning a rating and providing a report on assigning such rating the rating agency shall monitor this rating.

Based on the results of monitoring the rating, the rating agency shall update it on a quarterly basis, suspend or recall the assigned rating.

4. In case of suspending or recalling the rating, the rating agency shall specify reasons for such suspension (recalling) and publish those together with information about suspension (recalling) in accordance with the procedure stipulated by part eight of Article 5 of this Law.

Article 8. Restrictions on rating agency activities

1. The rating agency shall be prohibited from determining the rating of rating objects, if the issuer (borrower) is a related person of such rating agency.

2. Founders (owners, shareholders, participants) of issuers (borrowers) shall be prohibited from interfering in determining ratings in a manner violating the independence of the rating agency.

3. Employees of a rating agency who determine ratings shall not be involved in determining ratings of one and the same issuer (borrower) or related persons of such issuer (borrower) during the period exceeding five years. The said employees may be again involved in rating the same issuer

(borrower) or related persons of such issuer (borrower) after at least a two-year period.

4. Labor compensation of rating agency employees determining ratings shall not be established in proportion to the income that such agency receives under the Agreement, if the said employees participate in the performance of such Agreements.

Article 9. State regulation in the field of rating in Ukraine

1. State regulation and supervision in the field of rating in Ukraine shall be charged with the Commission.

2. When exercising the authority stipulated by part one of this Article, the Commission shall not be entitled to influence the determination of a rating and the rating methodology.

3. If a rating agency should carry out rating activity with a violation of requirements of this Law and normative acts of the Commission, the Commission shall be entitled to apply sanctions to rating agencies in accordance with the procedure stipulated by law.

Article 10. Final provisions

1. This Law shall take effect on the day of its publishing.

2. Legal entities that, as of the moment this Law takes effect, carry out rating activity stipulated by this Law shall bring their activity into compliance with this Law within three months.

3. Changes to the following legislative acts of Ukraine shall be introduced:

1) in the Law of Ukraine “On State Regulation of the Securities Market in Ukraine”:

passages 10-14 of Article 1 shall be deleted;

Article 4-1 shall be deleted;

paragraphs 31, 32, 34, 36 of part two of Article 7 shall be deleted;

in paragraph 33 of part two of Article 7 and paragraph 28 of Article 8, the word “authorized” shall be deleted;

in paragraph 35 of part two of Article 7, the word “Rating” shall be replaced by the word “rating”;

in paragraph 37 of part two of Article 7 and paragraph 27 of Article 8 the word “Rating” shall be replaced by the word “rating”;

paragraph 29 of Article 8 shall have the following language: “if there are signs that a rating agency violates requirements of laws of Ukraine in the field of securities and/ or normative acts of the Securities and Stock Market State Commission, sanctions shall be applied in accordance with law including the deletion of rating agencies from the State Registry of Rating Agencies”;

part one of Article 11 shall be supplemented by paragraphs 13 and 14 with the following language:

”13) rating agency’s not publicizing information in the amount and in accordance with the procedure stipulated by this Law, publicizing such information incompletely and/ or publicizing unfair information, -

in the amount of 1000 non-taxable minimum incomes of citizens;

14) carrying out rating activity by another person than the rating agency without prior registration with the Securities and Stock Market State Commission -

in the amount of 3000 to 5000 non-taxable minimum incomes of citizens.”

2) in the Law of Ukraine “On Insurance”:

parts 23, 24 of Article 31 shall be deleted;

3) in the Law of Ukraine “On Non-State Pension Coverage”:

paragraphs 17-19 of part one of Article 49 shall be deleted;

4) in the Law of Ukraine “On Conducting a Housing Construction Experiment on the Basis of the “Kyivmiskbud” holding company:

passage 28 of Article 1 shall be deleted;

in paragraph 3 of Article 8, the words “whose credit rating corresponds to the investment grade by the national scale stipulated by legislation of Ukraine”;

5) in the Law of Ukraine “On Collective Investment Institutes (Share and Corporate Investment Funds)”:

in parts three and four of Article 34, the words “and that have not received a rating in accordance with law” shall be deleted;

in part six of Article 34, the words “or securities that have not received a rating in accordance with law” shall be deleted.

6) the Code of Administrative Violations of Ukraine shall be supplemented with Article 163^{12} with the following language:

”163^{12}. Rating agency’s not publicizing information, publicizing it incompletely and/ or publicizing unfair information.

Rating agency’s not publicizing information in the amount and in accordance with the procedure stipulated by this Law, publicizing such information incompletely and/ or publicizing unfair information, -

shall entail a fine imposed on the officers in the amount up to 50 non-taxable minimum incomes of citizens.”

4. The Cabinet of Ministers of Ukraine shall, within three months after the taking effect of this law:

bring its normative acts into compliance with this Law;

ensure the bringing by ministries, other central executive authorities of their normative acts into compliance with this Law.

President of Ukraine **V. Yuschenko**

MOLDOVA
ATTACHMENTS

ATTACHMENT 1

USAID FROM THE AMERICAN PEOPLE

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

February 28, 2009

Activity Description	Staff	2006-2007 -												2007-2008											
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
		1st Quarter		2nd Quarter			3rd Quarter			4th Quarter			5th Quarter			6th Quarter			7th Quarter			8th Quarter			
NOTE: Changes shall be indicated in RED for deletions; PINK for additions.		NOTE: GREEN indicates "completed"; LIME indicates "to be completed".																							
Contract Management																									
A: Work Plans																									
1. Draft Mobilization Plan	RD																								
2. Draft Work Plan/1st Year and 2nd Year	RD, DL																								
3. Agree Work Plan with USAID (Year 1 only approved)	RD, DL																								
B: Mobilization																									
1. Establish Reporting Relationships	RD																								
2. Identify possible ST and Timeframes	RD, DL																								
3. Rent and equip office space, hire local staff, open bank accounts, rent apartmen	RD																								
4. Meet Key Individuals, Client, Counterparts, Participants, GOV	RD																								
C: Project Administration																									
1. Quarterly Reports	RD/SSM																								
2. Develop Performance Monitoring Plan	MF, RD, DL																								
3. ATCI Senior Staff Meeting, weekly with advisors	RD/SSM																								
4. ATCI Staff Meeting, monthly for all staff	RD/SSM																								
5. ATCI Staff Retreat or Team Building Activities	All																								
MORTGAGE LENDING COMPONENT																									
A Implement Certified Mortgage Lender Program																									
1. IUE review of CML training materials and methodology for applicability to Moldova : Assess mortgage activity; understand practices and policies of participants/regulators, etc.	AK, NR, MB																								
2. Select candidates from banks and financial institutions engaged in mortgage lending	MB, RD																								
3. a. Deliver a series of three CML courses in Chisinau, 2 programs during the first year: first program for mortgage professionals and second program for training providers	AK, NR																								
3.b. Deliver a complete CML program in Tiraspol, as approved by US Ambassador, to 6-8 commercial banks; 24 trainees	AK, NR																								
4. For second year, the third program implemented by training providers which is supervised by STTA-IUE CML trainers	AK, NR																								
5.Conduct assessment of current mortgage activity and impact assessment of Certified Mortgage Lender Program (CMLP) on the mortgage lenders and on their lending practice	MB																								
6. Assist ABM in conducting one full CML training course on a commercial basis.	MB																								
6. Assessment of rural lending; titling, title registration, appraisal, and of basic element of profitable agricultural production units.	MB																								
7. Deliver specialized mortgage trainings related to above and legal framework, if applicable and as needed.	MB, ST, SA. AB																								
8. Conduct seminars on risk management of mortgage portfolios; distribute Average Monthly Prepayment template	SSM																								
B. Assist Banks in Undertaking Mortgage Lending																									
1. Promote standardized rules, procedures, documentation for retail mortgage lending in Moldova	MB, LA																								

USAID FROM THE AMERICAN PEOPLE

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

February 28, 2009

Activity Description	Staff	2006-2007 -												2007-2008											
		Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
		1st Quarter			2nd Quarter			3rd Quarter			4th Quarter			5th Quarter			6th Quarter			7th Quarter			8th Quarter		
2. Select candidate banks and financial institutions for on-site assistance (On-going), and as requested.	MB																								
3. Provide on-site technical assistance (On-going)	MB, ST																								
C. Develop Mortgage-Related Life Insurance Products "as possible in Moldo																									
1. Analyze insurance and mortgage markets for existing products/practices	STTA																								
2. Assess legal and regulatory framework	STTA																								
3. Assess existing actuarial data (mortality tables)	STTA																								
4. Identify candidate insurers	SSM																								
5. Develop term sheet and rate structure	STTA/SSM																								
6. Assist in drafting policy	SSM																								
7. Conduct roundtables with mortgage lending banks and financial institutions	SSM																								
8. Launch product	SSM																								
D. Develop the Capacity of the Real Estate Appraisal and Brokers' Associatio																									
1. Needs assessment of appraisal and real estate association or organizations	MB, SA, AB																								
2. Facilitate development and use of unified methodology for appraisals	MB, TBD																								
3. Design training and capacity building programs for associations to comply with int'l. norms	MB, TBD																								
4. Facilitate associations' membership /participation in brokerage and appraisal associations.; organize study tours to the US	MB, RD, TBD																								
E. Develop a Mortgage-Backed Securities Capability (see Fixed Income Com																									
1. Establish Legal Working Group to assess legal basis and regulatory framework	RD, SA, AB, MB																								
a) Pledge Law--multiple pledgees	SA, AB, MB																								
b) Bankruptcy Statutes--pledge excluded from bankruptcy estate	SA, AB, MB																								
c) Trust Law--bondholder representative	SA, AB, MB																								
d) Other Laws as applicable	SA, AB, MB																								
2. Draft legal provisions as needed	SA, AB																								
3. Promote legal provisions to professionals, regulators, Ministries, etc.	MB, SA, AB																								
4. Select candidate issuer(s)	MB, MG																								
5. Conduct portfolio analysis	RD, MG																								
6. Develop standardized indenture	SSM																								
a. Perform cost/benefit analysis of credit enhancements	MB, MG																								
7. Draft investment memorandum	SSM, MG																								
8. Registration and Listing	RD,SSM,MG																								
9. Identify potential investors	RD,SSM,MG																								
10. Conduct "road show"	RD,SSM,MG																								
11. Price and place issue	RD,SSM,MG																								
12, Deliver Road Map/Guide to "Preparing for Covered Bond Issuance in Moldova"	SSM, MG																								
13. Conduct two seminars on the legal structure of the Moldovan covered bond.																									
F. Facilitate Establishment of a Commercial Credit Information Company (Included in Mortgage Lending Component)"as appropriate in Moldova"																									
Assessment of Credit Bureau Status and Feasibility of Establishment of Credit Bureau System in Moldova	RD, JP, MG, MB																								
Phase I -Review current status of development of CIC	RD,JP, MB, MG																								
1) Coordinate Disparate Groups (Providers, Users, Government) and Consolidate Interests - Overall Project Coordination	JP or OK																								

USAID FROM THE AMERICAN PEOPLE

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

February 28, 2009

Activity Description	Staff	2006-2007 -												2007-2008											
		Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
		1st Quarter			2nd Quarter			3rd Quarter			4th Quarter			5th Quarter			6th Quarter			7th Quarter			8th Quarter		
a) Develop and Establish linkages with Primary International Credit Bueau Operators	JP																								
b) Develop plan for banks to participate as providers of info for CB	JP																								
c) Sponsor visits to potential foreign CB partners (Experian, CR F and/or Schufa), if applicable.	JP																								
d) Secure Final buy-in of local data providers and users	JP																								
2) Determine and review CIB development strategy with government and counterparts: Review availability, activity, and accessibility of (a) credit info; (b) other pertinent borrower data; (c) credit data used by financial intermediaries; and (d) credit reporting	JP, MB, OK																								
3) Market best approach for structuring, establishing and operating CIB	JP, MB, OK																								
4) Analyze and Coordinate Passage of Law	JP, SA, AB																								
a) Seminars with key government ministries (data providers) and public (articles)	JP, SA, AB																								
5) Review and shape Regulatory Framework; Draft and Monitor Legislation and Regulations	JP, SA, AB																								
Promote single Crediit Bureau for Moldova																									
G. Build Capacity of Participating Banks to Maximize Benefits of CIC in Moldova as appropriate.																									
Phase II. Work with market participants	JP, MB, OK																								
Overall coordination of activities aimed at the promotion and development of credit bureau system	MB, OK																								
a) Consent clause - convince the market, draft the wording of consent clause, recommend consent clause placement in the appliaction form	JP																								
b) Advise on RFP responses and selection process of successful bidder from among CB operators as appropriate	JP																								
c) Reciprocity and access rights (data suppliers and data users)	JP																								
d) Data sharing (positive and negative data, scope of data, data masking, possible payment/data sharing arrangements)	JP																								
e) Work with public record holders (CBs will have to conclude separate agreement with each public record holder)	JP																								
f) Securing involvement of mobile phone operators, insurance companies,	JP																								
Phase III. Work with regulators, market education and public awareness efforts	JP, MB, SA																								
a) Shape regulatory debate and assist in drafting CB regulations and licensing requirements	JP, MB, SA, AB																								
b) Market education and public awareness campaign (publication of articles, etc.)	JP, MB																								
c) Regional workshops (to promote CBs and effedtive use of CB products)	JP, MB																								
d) Develop and deliver package of training programs	JP, MB																								
i) Banking Sector training	JP, MB																								
ii) Agricultural Sector Training	JP, MB																								
iii) Leasing Sector Training	JP, MB																								
H. Develop and Prepare Business Plan for CIC																									
1) Define business and operations plan for Credit Information Bureau	JP, MB, OK																								
2) Outline Package of Technical Requirements	JP																								
3) Discussions with Government Data Providers	JP																								
4) Prepare and deliver RFP																									
i) Review Business Plan with domestic banks and other local investors	JP, MB																								
ii) Review Business Plan with Bankers' Association and other Business Groups	JP, MB																								
5) Secure Buy-in to Business Plan of Foreign Investors and Banks	JP, MB																								
FIXED INCOME COMPONENT																									

USAID FROM THE AMERICAN PEOPLE

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

February 28, 2009

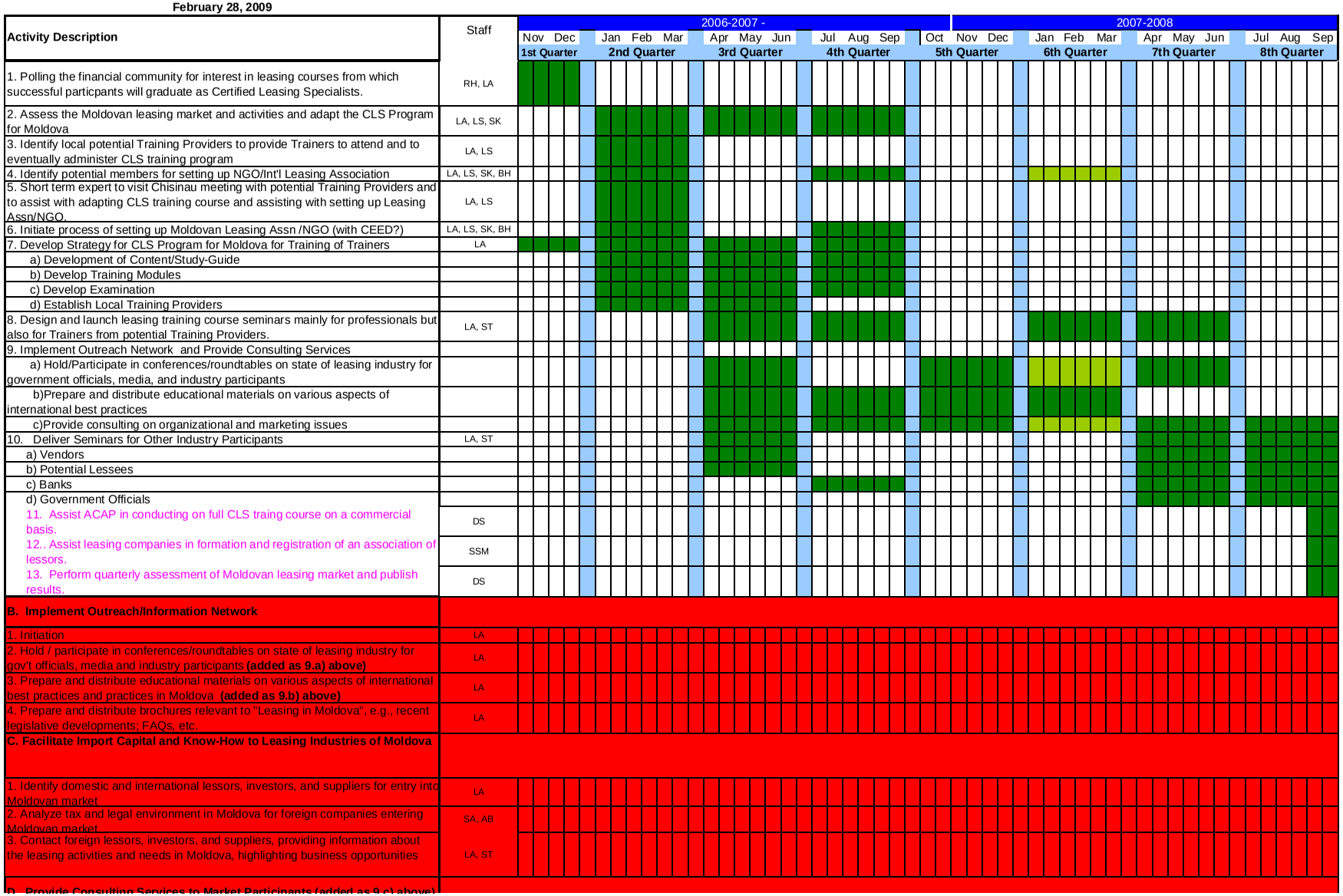
Activity Description	Staff	2006-2007 -																								2007-2008											
		Nov	Dec		Jan	Feb	Mar		Apr	May	Jun		Jul	Aug	Sep		Oct	Nov	Dec		Jan	Feb	Mar		Apr	May	Jun		Jul	Aug	Sep
		1st Quarter			2nd Quarter				3rd Quarter				4th Quarter				5th Quarter				6th Quarter				7th Quarter				8th Quarter		
A. Assess and Implement Regulatory Reform in Moldova																															
1. Review and assess legislation (e.g., pledge law, bankruptcy law, trust law, securities market law) for gaps and needs re: issuance of corporate and mortgage bonds	SA, AB, RD, MG																														
2. Work with the National Securities Commission (or its evolved role as Mega Regulator, "MR") building capacity for understanding and implementing issuance of bonds and regulating the markets	SA, AB, RD, MG																														
2.a. Assist Ministry of Justice with software changes to registry of moveable property.																															
3. Analyze financials of potential issuers for issuance of corporate bonds (see Task B below)	MG																														
4. Work with the NSC/Mega Regulator in capacity building regarding transparency and disclosure issues in bond related regulation	RD, MG																														
a. Ensure NSC/MR is continuing in easing bond related legislative and regulatory requirements	RD, MG																														
b. Install Automated Disclosure System at NSC/MR	RD,ST																														
5. Review and provide recommendations on regulations re: investment advisors and ratings agencies	RD, MG																														
6. Analyze authority of MR re: investigative powers and enforcment abilities; make recommendations for strengthening capabilitites	RD, SA, AB, OM																														
7. Work with CNVM in helping them develop into a Mega Regualtor; provide time bound action plan for activities necessary for implementation	OM, RD																														
8. Analyze laws, regulations, and practices for compliance with int'l. standards, making recommendations for activities	MG, RD, SA, AB																														
9. Analyze and assess private pension fund law and system (legal and institutional framework) in Molodva (added Jan 2008)																															
B. Develop Pilot Corporate Bonds in Moldova																															
1. Analyze companies' financials for possible candidates for bond issuance, focusing on creditworthiness, needs, and attractiveness for investors	MG, ST																														
a. Select top 10 candidates for issuance, including those companies which have already issued corp. bonds.	MG, RD																														
b. Meet with executives of these companies for their understanding and desire to issue bonds	RD, MG, ST																														
c. Presentation of bond workshops aimed at potential issuers as well as potential buyers of bonds, for higher education, discussing possible benefits and potential risks	RD, MG, ST																														
d. Organize and hold Bond Conference (added 09 2007)	RD																														
2. Assist companies (at least 3, if possible) in issuance of corporate bonds. (See electric comment as to types of assistance.)	RD, MG, ST																														
C. Assist GOM and NBM in Constructing Long-Term Gov't Yield Curve in Mo																															
1. Assess Status of GOM debt market including impediments to development	MG, ST																														
2. Assist in the design of a functioning repurchase market	MG, RD																														
3. Assist in process to construct L/T Yield Curve	MG, RD, ST																														
4. Respond to Ministry of Finance request for assistance in recapitalizing National Bank of Moldova	SSM																														
FINANCIAL LEASING COMPONENT																															
A. Build Capacity of Market Participants																															

USAID FROM THE AMERICAN PEOPLE

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

February 28, 2009

Activity Description	Staff
1. Polling the financial community for interest in leasing courses from which successful particpants will graduate as Certified Leasing Specialists.	RH, LA
2. Assess the Moldovan leasing market and activities and adapt the CLS Program for Moldova	LA, LS, SK
3. Identify local potential Training Providers to provide Trainers to attend and to eventually administer CLS training program	LA, LS
4. Identify potential members for setting up NGO/Int'l Leasing Association	LA, LS, SK, BH
5. Short term expert to visit Chisinau meeting with potential Training Providers and to assist with adapting CLS training course and assisting with setting up Leasing Assn/NGO.	LA, LS
6. Initiate process of setting up Moldovan Leasing Assn /NGO (with CEED?)	LA, LS, SK, BH
7. Develop Strategy for CLS Program for Moldova for Training of Trainers	LA
a) Development of Content/Study-Guide	
b) Develop Training Modules	
c) Develop Examination	
d) Establish Local Training Providers	
8. Design and launch leasing training course seminars mainly for professionals but also for Trainers from potential Training Providers.	LA, ST
9. Implement Outreach Network and Provide Consulting Services	
a) Hold/Participate in conferences/roundtables on state of leasing industry for government officials, media, and industry participants	
b)Prepare and distribute educational materials on various aspects of international best practices	
c)Provide consulting on organizational and marketing issues	
10. Deliver Seminars for Other Industry Participants	LA, ST
a) Vendors	
b) Potential Lessees	
c) Banks	
d) Government Officials	
11. Assist ACAP in conducting on full CLS traing course on a commercial basis.	DS
12.. Assist leasing companies in formation and registration of an association of lessors.	SSM
13. Perform quarterly assessment of Moldovan leasing market and publish results.	DS
B. Implement Outreach/Information Network	
1. Initiation	LA
2. Hold / participate in conferences/roundtables on state of leasing industry for gov't officials, media and industry participants **(added as 9.a) above)**	LA
3. Prepare and distribute educational materials on various aspects of international best practices and practices in Moldova **(added as 9.b) above)**	LA
4. Prepare and distribute brochures relevant to "Leasing in Moldova", e.g., recent legislative developments; FAQs, etc.	LA
C. Facilitate Import Capital and Know-How to Leasing Industries of Moldova	
1. Identify domestic and international lessors, investors, and suppliers for entry into Moldovan market	LA
2. Analyze tax and legal environment in Moldova for foreign companies entering Moldovan market	SA, AB
3. Contact foreign lessors, investors, and suppliers, providing information about the leasing activities and needs in Moldova, highlighting business opportunities	LA, ST
D. Provide Consulting Services to Market Participants (added as 9.c) above)	



USAID FROM THE AMERICAN PEOPLE

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

February 28, 2009

Activity Description	Staff	2006-2007 -																								2007-2008											
		Nov	Dec		Jan	Feb	Mar		Apr	May	Jun		Jul	Aug	Sep		Oct	Nov	Dec		Jan	Feb	Mar		Apr	May	Jun		Jul	Aug	Sep
		1st Quarter			2nd Quarter				3rd Quarter				4th Quarter				5th Quarter				6th Quarter				7th Quarter				8th Quarter		
D. Provide Consulting Services to Market Participants (added as 9.c) above)																															
1. Conduct transaction-based (ad hoc) Advisory Services	LA																														
2. Advisory Services to Lessors and Other Market Participants	LA																														
3. Assist New Market Entry of Lessors	LA, ST																														
4. Provide Consulting on Organizational and Management Issues	LA																														
5. Assistance in Securing Financial Sources	LA, ST																														
DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING COMP																															
A. Monitor Activities of Financial Institutions Working with the DCA																															
1. Monitor how Financial Institutions are utilizing guarantees and submitting claims	MG																														
2. Act as contact person for Financial Institutions and USAID to answer relevant qu	MG																														
3. Assist Financial Institutions to complete questionnaires and surveys, where nece	MG																														
4. Conduct meetings with Financial Institutions as needed and prepare semi-annual monitoring reports for USAID	MG																														
5. Verify partner Financial Institutions' semi-annual reports submitted through the Credit Monitoring System	MG																														

MF=Mohammed Fatoorechie DL=David Lucterhand, RD=Rick Dvorin, SSM=Steve Moody, LA=Lease Advisor, SA=Sr. Attorney to be named, MB=Mariana Botezatu, MG=Mihail Gherghircic, AB=Alina Birsan, JP=Javier Piedra, OK+ Oleg Kalchenko RH=Robert Homans, AK=Alexander Kopeykin, NR=Natalia Rogozhina, LS=Liliya Snigir, SK=Sergiy Kysil, OM=Oonagh McDonald, MA=Mads Andenas, NF= Norm Flynn, LT=Local Team, TBD=to be determined, ST=other short-termers; IUE=Institute of Urban Economics. NOTE: as there is a change in key personnel of Country Director from Rick Dvorin to Steve Moody, as of Jan. 2008, RD may be replaced by SSM

ATTACHMENT 2

REPORT
on the 4th Certified Mortgage Lender Program
Module III "Pricing Base and Risk Management in Mortgage Lending"

Training period:	February 9-12, 2009
Training provider:	Access to Credit Initiative / Moldova in cooperation with Financial Banking Consulting and Training Center "ABM Consulting" of Moldovan Banks Association

Overview on the 4th Certified Mortgage Lender Program Module III

The Certified Mortgage Lender Program (CMLP) derived from training courses offered by the Institute for Urban Economics (IUE) in other countries, with some adaptations relevant to the mortgage activities, economical environment and legislative framework of Moldova.

The 4th CMLP is implemented by the local training provider – Financial Banking Consulting and Training Center "ABM Consulting" of Moldovan Banks Association (hereinafter – ABM Consulting) – under the aegis of ATCI/Moldova. Please see the Report on the 4th Certified Mortgage Lender Program *Module I* for more details.

The 4th CMLP consists of 3 modules, which were held from November 2008 to February 2009:

- Module I – held in November 25-28, 2008
- Module II – December 16-19, 2008
- Module III – February 9-12, 2009

Participants of 4th CMLP (The list of participants of Module III is attached, please see the Appendix**)**

Item	Module I	Module II	Module III
Number of participants:	13	10	19
Number of represented institutions:	7	5	6
including:			
Commercial banks	5	4	6

Audit companies	1	-	-
Governmental bodies	1	1	-

Training process

The trainers of ABM Consulting held Module III of the 4th CMLP themselves.

The list of the experts who participated as trainers in 4th CMLP Module III:

- Irina DICOVA – PhD in economy, University professor, Academy of Economic Studies (1st CMLP);
- Alisa SAVVA – expert of ATCI/Moldova (3rd CMLP);
- Steve MOODY - Country Director of the ATCI/Moldova;
- Alexandru SAVVA – Director of ABM Consulting.

During the Module III the following subjects have been discussed:

1. Analysis and evaluation of mortgage lending banking risks. Lending risk
2. Analysis and evaluation of liquidity risk. Optional risk. «Spread-risk»
3. Residential construction financing
4. Assets and liabilities management in mortgage lending
5. Crediting risk insurance on residential mortgage lending
6. Credit Bureaus in mortgage lending system
7. Mortgage securities. International experience and local legislation.
8. Mortgage operations planning in banks. Lending mortgage business plans
9. Mortgage pricing. Combined evidence of all factors
10. Main aspects of the formation of state assistance system supporting the population in improving their living conditions. Discussion of residential mortgage lending practice in Moldova
11. Global Financial Crisis: Debt deflation
12. Subprime Crisis

General results

The Module III of the 4th CMLP was finalized by a test offered to the participants. Taking into consideration that there were new participants of Module III who not attended the Modules I and II, there were handed two kinds of certificates:

- The certificates of mortgage specialist were handed to 7 participants (passed all modules and tests);
- The certificates of confirmation which confirms the participation on Module III and positive evaluation of Module III test.

The certificates were given taking into account the results of the tests of each participant and according to the written disposal of the Director of ABM Consulting. The certificates of mortgage specialist continue the numbering established by ATCI.

At the end of each day the participants were offered the chance to evaluate the quality of all modules and training in general, as well as the trainers' qualification.

Cumulative grades for Module III *(grade scale: min. – 1 point, max – 5 points)*

No.	Item	Cumulative grade, points
1	I have obtained new knowledge during training	4,92
2	I will use the new knowledge within my daily work	4,58
3	The methodology of training	4,50
4	The practical exercises	4,67
	TOTAL cumulative grade	**4,67**

Cumulative grades of trainers *(grade scale: min. – 1 point, max – 5 points)*

No.	Item	Cumulative grade, points
1	Irina DICOVA	5,00
2	Alisa SAVVA	4,92
3	Steve MOODY	5,00
3	Alexandru SAVVA	5,00
	TOTAL cumulative grade	**4,98**

Most frequent answers to the question "What did you like the most?" were the following:

- Practical exercises based on real financial statements of banks
- Topics on securitization, mortgage securities and mortgage pricing
- Topic on financial crisis
- Good methodology and quality of training
- The easy form to present a big volume of material
- Good trainers.

The participants answering the question "What did you dislike the most?" mentioned the following shortcoming:

- the mortgage market in underdeveloped and it's quite difficult to apply the knowledge from CMLP.

There were no new proposals and recommendations.

These evaluations will be taken into account while organizing the next CMLPs.

Budget of Module III of the 4th CMLP

The participation fee for Module III of the 4th CMLP is 1,500 MDL (about 142 USD) per participant. The fees would be paid by all participants.

NOTES:	1 USD :	10,55 MDL
	Set of materials:	20
	Number of participants who paid the fee:	19
	Yellow cells show the expenses covered by ATCI/Moldova (inestimable)	

Incomes / Expenses / Profit

No.	Item	1 participant, MDL	19 participants, MDL	19 participants, USD
1	Incomes	1 500	28 500	2 701

2	Expenses	656	12 462	1 181
3	Profit	844	16 039	1 520

Detailed expenses

No.	No.	Cost item	Units	Cost per unit, MDL	Total cost, MDL
1	1	Premises	1	0	0
2	2	Projector & PC	1	0	0
3	3	Folders & resources for binding	20	30	600
4	4	Paper (A4 box)	4,5	55	248
5	5	Pens	20	3	60
6	6	Notepads	20	10	200
7	7	Certificates	19	15	285
8	8	Flip-chart paper	1	100	100
9	9	Binding of materials	13	0	0
10	10	Cartridge refill	1	0	0
		Total 1:			1 493
11	1	Coffee & Tea (3,5 days)	-	-	190
12	2	Biscuites (3,5 days)	-	-	320
13	3	Mineral Water 0.5 (3,5 days)	60	4	240
		Total 2:			750
14	1	Trainers' fees (600 MDL per course)	-	-	7 200
15	2	Banking commissions	-	-	200
16	3	Project manager's salary (3,5 days)	3,5	250	875
17	4	Taxes (27% of trainers' fees)	-	-	1 944
18	5	General assistance (cleaning, serving)	1	0	0
		Total 3:			10 219
		TOTAL EXPENSES (Total 1 + Total 2 + Total 3)			**12 462**

Appendix. List of participants

№	Name	Position	Company
1	Ludmila DONCIU	Şef al Secţiei Creditare Ipotecare şi de Consum	EXIMBANK
2	Oleg PETELCA	Director adjunct al filialei nr. 18 or. Balti	EXIMBANK
3	Sergiu CRECIUN	Economist coordonator, Direcţia credite	BANCA DE ECONOMII
4	Angela BÎNZARI	Economist coordonator, Direcţia credite	BANCA DE ECONOMII
5	Natalia PĂDURARU	Economist	MOLDINDCONBANK
6	Irina CERGA	Economist, Secţia credite	EUROCREDITBANK
7	Nina LIBONI	Economist, Departamentul creditare	BANCA SOCIALĂ
8	Stela TODOŞICIUC	Economist coordonator	VICTORIABANK
9	Alina IANUCENCO	Economist superior	VICTORIABANK
10	Nicolae GROSU	Economist principal	VICTORIABANK
11	Serghei SURDU	Direcţia credite	VICTORIABANK
12	Ecaterina ADAM	Economist	VICTORIABANK
13	Ivan BISIR	Economist	VICTORIABANK
14	Valerii DIMITROGLO	Economist superior	VICTORIABANK
15	Vladimir ERHAN	Economist superior	VICTORIABANK
16	Natalia OSIPCIUC	Economist principal	VICTORIABANK
17	Luminiţa MOCAN	Economist	VICTORIABANK
18	Mariana MARANDICI	Economist superior	VICTORIABANK
19	Alla STARAIA	Economist principal	VICTORIABANK

ATTACHMENT 3

Agency for International Development (USAID)
Contract No. 121-C-OO-04-0071
The Pragma Corporation
Access to Credit Initiative in Ukraine and Moldova.

Insurance Protection for Mortgage Lending in Moldova

JSH McLaren
Short Term Expert
February 2009

Access to Credit Initiative in Ukraine and Moldova.

Contents

Section I The Possible Solutions 1
Life Insurance as Life or General Insurance 1
Death from any cause 1
History of EC Directive 1
Credit Life Insurance 1
Proposal A 2
Proposal B 3
Section II Conclusions 1
Use of Life Insurance as Security 1
Necessity of Requiring Life Insurance 1
The Life Insurance Product 1
Accidental Death 1
Predictability of Mortality 2
Section III The Current Situation 1
Insurance Protection 1
Property Insurance 1
Life Insurance 1
The Mortgage Law 1
Life insurers 1
Non Life insurers 2
Lenders who Require Life Cover 2
Mortgage Parameters 2
Mortgage Market 3
Population and Income 3
OCW Mortgages 4
Insurer Parameters 5
Annex 1: Mandatory Property Insurance 7
Annex 2: Death from Any Cause versus Accidental Death 8
Basic Law on Insurance 8
Article 2. Scope of the Law 8
Article 8. Categories and classes of insurance 8
Annex 1 8
A. Life insurance 8
B. General insurance 9
Annex 3: Reinsurance of Personal Accident and Accidental Death 10
Chosen Reinsurer Kapital Re 10
Annex 4: Foreign insurers entry to Moldova market 12
Rosgosstrakh 12
Grawe Asigurare de Viata 13

JSH McLaren
Short Term Expert

February 2009

Section I The Possible Solutions

Life Insurance as Life or General Insurance

Death from any cause

Death from any cause is currently legislated to be a pure Life Insurance product. Death from accidental cause is a General Insurance product.

History of EC Directive

The Expert writing this report was formerly The Senior Insurance Industry Advisor to the UK regulator. The expert recommended to the UK, when directives were being negotiated, that Death from Any Cause could equally be a short term, one year product, granted to General insurers in the same way as Life Insurers may offer the personal accident and sickness classes.

The reasoning was that General insurers were offering short period packages for credit insurance, the protection of lenders and borrowers. For the larger part of Death Insurance, at younger ages, accidental death is the major cause of claim. Younger ages are the major group of borrowers. To offer the package two insurers are required one Life, one General. This is a pointless complexity for short term protection.

As it is an annual contract, then the simple rules of non life reserving apply. An actuary's certification is not a necessity. Dead is a simple fact.

The French refused this concept. The EC directives influencing Moldova retain death from any cause as a pure life product.

Credit Life Insurance

Life cover for credit life is being sold in Moldova associated with a benefit arising from incapacity. It is certain that the total premium charged for this policy is largely charged for the incapacity benefit. Death from any cause is a rare event for the borrower group. Even in the older group less than 1.6% of the lives are likely to die in a given year. . As the age of the mortgagors rises, the more necessary it is to have death from any cause. However, Mortgagor lifes currently form a tiny part of the total population. There has already been a young life death from heart failure. In such a small sample aberrant results may occur

The lender is protected by the existence of the value of the mortgaged property, the borrower who dies of natural causes is exposed to the repossession of the property and thus the family home is lost. This is not a desirable social outcome.

Age group	Moldova Death as % of Alive at start	Deaths [1] Deaths	Alive At start	Alive Closing
25-29	1.4%	1364.8	95590.4	94225.6
30-34	1.9%	1775.8	94225.6	92449.7
35-39	2.5%	2314.6	92449.7	90135.2
40-44	3.9%	3486.4	90135.2	86648.8
45-49	5.6%	4821.2	86648.8	81827.5

Proposal A

It is proposed that until competition exists in Life Insurance in Moldova that General Insurance Companies are permitted to underwrite death from any cause insurance under the provisions of an annually renewable contract.

This prerogative will be cancelled when competition (say three or more life insurers are active in Moldova) exists in Moldova.

When the current life policies are renewed the terms of the contract may be changed, in most cases for a minor increase in premium tariff. As the mortgages are repayment mortgages insuring the reducing balance, the year of change should not give rise to an additional premium over the prior year premium for this section of cover.

When this prerogative is cancelled, as the policies are annually renewable, it will be possible for the borrowers to transfer to a life insurer non cancellable policy for the remainder of their loan period. There are several possibilities of types of pure life policy.

[1] Based upon 1991 Life Tables Male. See secondary report upon creation of life tables.

Proposal B

It is proposed that the lender purchase a policy to protect their book of business. This policy would be a pecuniary loss policy not a life insurance policy.

The policy would protect the lender from any event which caused them loss under the following circumstances:

There is an existing policy taken out in conjunction with a Mortgage (Article 22 cover).

There is an event which cancels or diminishes the cover available to benefit of the lender; the event is not an event which is covered by the individual policy, or the event and coverage of such a nature that the sum insured payable is held subject to average (USA co insurance).

Such a policy should be contracted to protect the lender until systems to prevent co insurance or to protect against uncovered losses (eg death from an uncovered cause, as might be the case where an insured becomes OCW without notification).

In an inflation situation the property insurance sum insured is required to be continuously reviewed and adjusted.

Section II Conclusions

Use of Life Insurance as Security

The use of life insurance as secondary security to the object of the mortgage, Real Property has the following benefits:

a) Should the source of income to support the mortgage die it is administratively simpler to collect the death benefit and clear the debt.

b) It is socially preferable that the widow and orphans, or any other dependants, are left in possession of the family home. It also creates a negative publicity should they be expelled when repossession is used following the Death.

Necessity of Requiring Life Insurance

The lender has Real Property as security for the mortgage. There should be adequate margin to cover the loan. In the worst case repossession can be used to recover the property. It can then be sold, rolling the funds as a mortgage to the buyer.

The Life Insurance Product

The life insurance product currently in use is wholly unsuited to long term exposure, as in protecting a ten or more year mortgage.

Accidental Death

The current life cover is for accidental death. An abstract has been made of the Historic Moldovan causes of mortality. This indicates that accidental death is circa 5% of all deaths.

In younger age groups, more exposed to hazardous behaviour, this may be a higher value. The USA Table (see Creation of Mortality Tables) indicates that a more hazardous group (blue collar) has a much higher overall death rate in younger age groups. This must, in part, to be due to accidental death from industrial accidents etc.

As the cohort of borrowers age death from, non accidental death will become a much higher proportion of the deaths of borrowers. There is one lender who lent for up to

25year periods. The Moldovan Mortality Table (see Creation of Mortality Tables) indicates a much heavier mortality rate once the age of 40 is achieved.

Accidental Death cover will prove wholly inadequate to provide the results required, as discussed above. Death from Any Cause is required, to be arranged in the next few years, as some borrowers fall into the higher mortality ages.

Predictability of Mortality

Exercises have been carried out, using the Moldovan Life Tables, both as they are Tabulated, and using a reduction in death rates predicated upon the difference between Blue Collar and White Collar workers in the USA (see Creation of Mortality Tables).

The results obtained did not in any respect match those described in the interview procedures, nor could they be used to justify the low premium tariff obtained by at least one lender.

The following is possible:

a) The Mortality Tables are old and no longer predict Moldova Mortality. This is unlikely since the literature examined views Moldova as having returned to a more stable prior condition after the 1990's dip.

b) The mortality tables represent a much wider cohort of the population than our ultra middle class cohort of borrowers; the blue collar/ white collar adjustment was tried, but did not produce a result concordant with current experience.

c) The tiny sample of borrowers is returning results, on the low side of any distribution. Such a tiny sample varies from the major population as an inverse square root of its sample population. Variation is SD/ square root of number in sample. Clearly with a major sample this variation becomes very small. That is not our situation.

d) While the current situation is giving ultra low death rates, it can equally produce very large death rates. The Lenders need to stabilize their required situation. Death from any cause cover seems the only method.

Section III The Current Situation

Insurance Protection

Property Insurance

Article 22 of the 2008 Mortgage law[2] provides that the object of the mortgage is insured .The law gives the lender powers to maintain the insurance cover and charge any premium cost so incurred to the mortgagor.

This is a reasonable and necessary provision. Moldova has an adequate number of non life insurers and the operation of this insurance should provide no problems.

That the mortgagee is a co beneficiary (coinsured) of the insurance contract should be a matter of agreement between the lenders and the banks, as a standard matter of procedure. A mere note of interest is insufficient.

A note of interest implies the mortgagee has its rights derived from those of the mortgagor. An act of the mortgagor which makes the contract void thereby makes the mortgagee's protection void. As a coinsured the mortgagee has his own rights and interests, independent of any act of the mortgagor.

Life Insurance

The Mortgage Law

Article 22 (2) of the 2008 Mortgage law[3] provides that the life insurance of the debtor up to the amount of the outstanding debt throughout the term of the mortgage may be a condition of the contract.

The maintenance of the insurance is a matter for the mortgage contract; the law gives no mandatory powers.

Article 22 (3) is assumed to refer solely to the life insurance contract, but this assumption arises solely from its position in the article. It gives the mortgagor rights over the choice of insurer.

Life insurers

Life insurers are not common in Moldova, at the current time there appears to be a single active insurer. This insurer Grawe, an Austrian owned insurer, is developing a broker based distribution network, and has played no part in the credit life market.

[2] See Annex 1
[3] See Annex 1

Non Life insurers

Where the mortgagees have required life insurance, the sole market available is that of the non-life insurers. They may offer only accidental life cover. Non life insurers may offer only an annually renewable contract. (See: Appendix 2.)

Lenders who Require Life Cover

The lenders have differing priorities on the need to require life cover.

a) One major lender requires cover on all loans but is required to adopt pragmatic procedures when the source of income is an out-of-country contract worker (OCW)[4]. As the Moldovan insurers will not grant insurance on OWC lives, a Moldovan inhabitant is substituted on the various documents and the source of income is uninsured. 99% of the loans were insured.

b) One major lender[5]required and arranged life insurance cover only for those borrowers perceived to have higher hazard exposures from their economic activity eg frequent air travel.

c) One lender did not arrange any form of life cover for a borrower. This lender seemed unsure of the need for the mandatory property cover.

d) The currently active bank A has a single premium tariff for all ages from 25 years old to 65 years old. They have assessed and imposed a rate 0.3% applied to the previous year end closing balance, representing their "average client". They have two insurance carriers

Mortgage Parameters

Years Active	Loan Type	No of Loans	Average Loan $K	Min $K	Max $K	Years	Loans OCW based Income %	Mortgagor age
A 3	Total	1,000	45	5	250	>15	25-30	
	Business Capital %	30%						

[4] World Bank 2005 Report 38276 MD*: 25% of workers are abroad remitting home 27% of GDP.*
[5] This bank is currently and until further notice inactive in making new loans.

B 1.5	Total	3,500	30			>25	nil	25-45
	Commercial /Consumer					6 or 3		
	Average					14		
C 11	Personal					3		
	Business					5-7		
	Dwelling					5-10		

a) The Loan values are those at the point of setting up the loan. These are repayment loans with reducing balances.

b) *Bank B* Offer of loans takes into account borrowers' age in order to ensure repayment during their working life, before retirement

The range of questions asked and/or answered varied with the interviewee. They also changed emphasis as the process was developed and previously unknown parameters were sought. Interviews were of necessity kept brief.

Mortgage Market

There is clearly a demand for mortgages in Moldova. A bank which effectively offered mortgages for a very brief period, circa one year, achieved some 3,500 loans.

This bank did not lend to OCW, either as principals, or by relying on their income.
A bank which has lent on the basis of OCW income has an exposure to such income producers of 25% to 30%.

It is clear that there is a demand for mortgages in Moldova which is not being met. The current loan book in the mortgage market may be circa $100-200 million[6]. Its growth is restricted by lack of funds available to lenders and by the current unstable international money markets.

Population and Income
Excluding Transnistria
Estimates

Total Population	Male	Working Age				
			In Moldova		OCW	
				Potential		Potential

[6] Say 5,000 mortgages, average say US$ 30,000: US$ 150 million

				Mortgagor		Mortgagor
3, 400, 000	1, 670000	1,000,000	550,000	40,000+	450,000	15,000~

The “middle class” mortgage potential is estimated as shown (say 7%)
OCW may have become long term residents of their host country.

Nearly half of all able-bodied, working-age Moldovans now live abroad. Most of them will never return. The government and the country could not survive without the money they send back: More than a third of Moldova's hard currency earnings are from "gast arbeiter[7]" remittances, making it the most dependent countries in the world.[8]

The total mortgages granted to pure residents may be circa 4-5 thousand. Those depending on OCW income may be an additional maximum of a thousand.

OCW Mortgages

For social and economic reasons it would be clearly desirable to have OCW:

- To continue to remit funds to Moldova for general purposes,
- To remit funds to Moldova to establish their base in Moldova.

The OCW who are able to follow this course are clearly the higher earners with greater skills.

Lending to OCW is clearly more difficult. Viewing these workers as a higher hazard life insurance risk, Moldovan insurers could provide cover by loading the premium. *See Creation of Mortality Tables: Blue Collar versus White collar mortality.*

Life cover and adequate property security margin over the loan should be a possible course.

[7] Out of Country Contract Worker “OCW”
[8] http://www.tiraspoltimes.com/news/moldova_first_in_the_world_for_immigrant_cash html

Insurer Parameters

Years Active	No of Tariffs	Years of loan	No of policies	Average Sum Insured $K	Max SI $K	Max Retain SI $K	Reinsure	Reinsure Details
A 15	1 for assoc bank		700	27	30	190	nil	
	>2008	10						
	2008>	15						
B	One lender			30-40	300	100	2/3 Quota share Retain SI Max €50 RI €100	Three cases of Fac RI: excess of €150 SI Known Reinsurer
	>2008	10						
	2008>	15						
C	7 for lenders	As Above ?		Not given	Not give n	950	Sealed info	Not given
	1 for general public							
	Total		2000					

a) The Sum Insured values are those at the point of setting up the loan. These are repayment loans with reducing balances.

b) The policies are individually underwritten taking into account age, medical status etc.

c) The policies are renewed annually at the value of the previous years closing balance. Information is requested from the insured person regarding their status at renewal.

d) Company C refuses to underwrite or continue cover on persons who become OCW.

e) The view of a regulator on prudent maximum retained sum insured is computed as 10% of the Net Free assets. This is the sum which is a reasonable retained maximum loss on a single event.

f) Retention at 10% is a non life parameter. Life Insurers normally retain a lesser %age, but have a greater capital.

Annex 1: Mandatory Property Insurance

Mortgage Law Article 22 Insurance of the object of mortgage

(1) The mortgagor is under the obligation to insure the mortgaged asset for its replacement cost for the benefit of the mortgagee, against all the risks of accidental loss or damage. If the mortgagor fails to insure the mortgaged asset, the mortgagee is entitled to do so at the mortgagor's expense.

(2) The mortgage contract may set forth a requirement concerning the life insurance of the debtor up to the amount of the outstanding debt throughout the term of the mortgage.

(3) The insurance shall be contracted from an insurance company agreed with the creditor of the secured obligation. The creditor of the secured obligation does not have the right to impose a certain insurer.

(4) Insurance of a mortgaged asset is not mandatory in case of subsequent mortgages over an asset that is already insured.

Annex 2: Death from Any Cause versus Accidental Death

Basic Law on Insurance

Article 2. Scope of the Law

(1) The scope of the present Law is the regulation of organization and functioning of insurance, insurance-reinsurance and reinsurance companies (hereinafter referred to as insurers, respectively reinsurers) as well as of insurance intermediaries, the organization and operation of the Insurance Supervisory Commission, the supervision of insurers and reinsurers carrying out their business on or outside the territory of the Republic of Moldova, the supervision of insurance and reinsurance intermediaries, as well as of other connected businesses with the aim of protection of the interests of insureds.

Article 8. Categories and classes of insurance

(1) The insurance business shall be divided into two categories: „life insurance" and „general insurance".

(2) An insurer shall undertake insurance activity on the territory of the Republic of Moldova on the grounds of a license issued exclusively either for "life insurance" category or for "general insurance" category.

(3) Insurance classes related to categories stipulated in paragraph (1) shall be set forth in Annex 1 to the present Law.

(4) The insurer shall be entitled to carry out its business within the limits of insurance classes for which it holds authorization from the Insurance Supervisory Commission, in accordance with the present Law.

(5) As a derogation from the provisions of paragraph (2), the insurers which underwrite "life insurance" category, may also receive authorization for classes 1 and 2 provided in letter c) of Annex 1 to the present Law.

Annex 1

A. Life insurance.

The kinds of insurance which have a contractual basis:

a) life insurance, including: insurance on survival to a stipulated term, insurance on death, insurance on survival to a stipulated term and on death (mixed life assurance), life insurance with return of premiums, marriage insurance, birth insurance;

b) annuities;

c) supplementary life insurance: insurance against death resulting from an accident, personal injury insurance, insurance against permanent disability resulting from sickness, insurance against permanent disability resulting from an accident, insurance against temporary disability resulting from sicknesses, insurance against temporary disability resulting from an accident, hospitalization insurance, medical expenses insurance, insurance against severe sicknesses, unemployment insurance, where these kinds of insurance are underwritten in addition to a life insurance contract;

B. General insurance

1. Accident insurance (including industrial injury and occupational diseases), compensated by:

- pecuniary benefits;
- benefits in the nature of indemnity;
- combinations of the two;
- benefits for injury to passengers.

2. Health insurance, compensated by:

- pecuniary benefits;
- benefits in the nature of indemnity;
- combinations of the two.

Note: These classes are more fully explained above at **A. Life Insurance c)** where the law describes the supplementary classes that a life insurer may be licensed to underwrite.

Annex 3: Reinsurance of Personal Accident and Accidental Death

A Russian insurer was chosen because the portfolio was too small and not rated to the satisfaction of international reinsurers, Munich Re etc. The company would prefer to use the international A market, but it is too small a portfolio.

Chosen Reinsurer Kapital Re

Group "IFD Kapital" includes the following companies:

- **Bank "Petrocommerce"**
  OJSC "Bank "Petrocommerce"
  CJSC "Petrocommerce Invest Consulting"
  CJSC "Bank "Petrocommerce-Ukraine"
  OJSC "Komi Regional Bank "Uhtabank"
  OJSC "Joint-Stock Investment Commercial Industrial Constructional Bank "Stavropolje"
  Banca Comerciala "Unibank" S.A (Moldova).

- **Investment Group "Kapital"**
  Asset Management Company "Kapital"
  Investment Company "Kapital"

- **Insurance Group "Kapital"**
  Kapital Insurance
  Kapital Reinsurance
  Kapital Medical Insurance
  Kapital Life Insurance

- **Management Company "Pensionniy Kapital" ("Pension Capital)**
  NSPF "Pensionniy Kapital" ("Pension Capital")
  NSPF "LUKOIL-GARANT",
  NSPF "Perviy pensionniy fond" ("First pension fund")
  NSPF "Kubanskiy pensionniy fond" ("Kuban pension Fund")

- **"Kapital PIF" AMC**

- **Financial Group "IFD Kapital" (Ukraine)**
  LLC "IFD Kapital" (Ukraine)
  NPO ONSPF "IFD Kapital" (Ukraine)
  LLC "IFD Kapital Pension Funds Manager" (Ukraine)
  LLC AMC "Kapital" (Ukraine)

Investment Group "Kapital" is one of the progressive investment groups in Russia. It offers a wide spectrum of investment products to the companies and private persons and helps them to work in all capital markets.
Asset Management company "Kapital" is a part of into the Investment group "Kapital" and takes the highest place in the ratings of reliability in NAUFOR (AAA-mark) and in a rating agency "Expert RA" (A++ mark). In 2003 the company was a leader among non-state management companies by the number of pension savings accounts transferred from Pension Fund of the Russian Federation. Now it operates pension reserves (31 NSPFs) and insurance reserves (25 insurance companies).
Investment group "Kapital" renders investment-banking services and brokerage services. It takes the highest place in the ratings of reliability in NAUFOR (AAA-mark).

Insurance Group "Kapital" is a recognized leader in the Russian insurance market. It is a versatile insurer and it offers all types of insurance services. OJSC "Kapital Strahovanie" ("Insurance Company "Kapital") and CJSC "Kapital Re" are included in the top 10 Russian insurance companies by merit its amount of assets and own capital. It takes the highest places in the ratings of reliability in a rating agency "Expert RA" (A++-mark). CJSC "Kapital Meditsinskoe Strahovanie" ("Medical insurance "Kapital") is one of the leading insurers in a segment of obligatory medical insurance. Its total number of the insured in the territory of Russia is over 8 million people.

Annex 4: Foreign insurers entry to Moldova market

ROSGOSSTRAKH has purchased Moldavian Insurer MOLSDASIG [9]

Russian-based insurance company ROSGOSSTRAKH, one of the leaders on the Russian and CIS markets, has purchased recently 80% in the authorized capital of the OLDASIG, the main player on the Moldavian insurance market. Transaction has been made through acquisition of the additional issue of shares totalized 3 mil. EUR, following the decision of MOLDASIG shareholders to increase authorized capital five times, from EUR 750 thousand to EUR 3,7 million.

The deal was concluded by ROSGOSSTRAKH subsidiary LINEKERS, founded recently in Cyprus, especially for this acquisition, according to Russian insurer expanding strategy on foreign markets.

"The negotiations with Russian investors are still in progress and will be finalized at the end of May", MOLDASIG's officials declared for XPRIMM News.

ROSGOSSTRAKH is the fifth foreign investor on the local market, after Australian Group QBE, that purchased ASITO in 1998 and sold it's business last year; Austrian Group GRAWE, which acquired life insurer DONARIS and a majority stake in CARAT Insurance Company; Ukrainian Group UNIVERSALNA became the sole owner of ASCARGO and Romanian DELTA Asigurari bought SERVASIG, in 2007, renamed later in IPB DELTA Asigurari.

MOLDASIG was founded in 2002, and due to his important shareholders, as Banca de Economii (one the most important bank in Moldova), Calea Ferata din Moldova (the Moldavian Railways) and Posta Moldovei (the Post of Moldova) quickly became the leader on the market, pointing a market share of 30,1% in 2007. The company wrote in the same period EUR 13.6 million in premiums, up by 57% compared to the equivalent period a year ago, and paid EUR 3 million in claims. Insurance reserves totalized EUR 8 million, assets - EUR 11.7 million.
MOLDASIG has 10 representative offices across Moldova and more that 1.000 employees.

Rosgosstrakh

Heir to Gosstrakh - the Soviet state insurance monopoly - Rosgosstrakh (RGS) has almost 87 years of history behind it, evolving from the time when insurance was a state-delivered and regulated service to the present-day market-driven leadership position. RGS has been able not only to retain practically the whole of the vast former network of

[9] **by oleg.doronceanu@mxp.ro, 7.05.2007**

Gosstrakh in Russia but also to build on it, expanding its presence, increasing the number of agents and overhauling the infrastructure.

It has also been able to preserve the confidence of millions of its clients while reviving the old and universally respected brand name, modernizing it and infusing it with a new distinct drive, confidence and reliability. Today, the RGS brand name is immediately recognized right across Russia and attracts millions of new clients every year.

Until 2001, Rosgosstrakh was state-owned. Since mid-2003 a consortium of Russian investors holds the controlling stake in the company, having acquired 75% minus four shares in several open privatization auctions. The federal government retains the balance of shares.[10]

Grawe Asigurare de Viata

Grawe Asigurare de Viata, the Moldovan arm of Austrian insurance group Grazer Wechselseitige Versicherung (Grawe), has merged with local insurer Carat, the Moldovan Securities Commission CNPF said on January 14, 2009. The Company has been renamed Grawe Carat Asigurare

[10] Company Website

ATTACHMENT 4

ACCESS TO CREDIT INITIATIVE/MOLDOVA

Mortgages, Fixed Income, Leasing

Guide to Issuing Mortgage Covered Bonds in Moldova

Contents

1. Introduction	**2**
2. The Cover (Pledge)	**4**
3. Organizing, Maintaining and Analyzing the Mortgage Register	**6**
4. Bondholder Representative	**10**
5. The Auditor and Agreed-upon Procedure	**14**
6. The Prospectus and The Road Show	**19**
7. Pricing the Bond	**21**

1. Introduction

Covered bonds

Covered bonds are bonds secured by an asset pool on the balance sheet of the issuing institution. Mortgage covered bonds are the largest class of covered bonds; the other classes (see table below) demonstrate that the covered bond structure is flexible enough to include other assets as collateral. The term 'covered bond' has been in use for only about ten years, but the basic structure of covered bonds is said to have first appeared in Prussia in 1769.

COVERED BONDS OUTSTANDING 2007 in EUR million					
	Mortgage	Public Sector	Mixed Assets	Ships	TOTAL
Germany	206,489	677,656	0	4,413	888,558
Denmark	335,849	0	0	8,723	344,572
Spain	266,959	16,375	0	0	283,334
France	63,555	56,403	80,097	0	200,055
Sweden	92,254	0	0	0	92,254
UK	81,964	0	0	0	81,964
Ireland	13,575	51,204	0	0	64,779
Luxembourg	150	33,741	0	0	33,891
Switzerland	29,013	0	0	0	29,013
Austria (e)	4,125	15,200			19,325
Netherlands	15,727	0	0	0	15,727
USA	12,859	0	0	0	12,859
Italy	0	8,063	0	0	8,063
Portugal	7,850	0	0	0	7,850
Czech Republic	7,850	0	0	0	7,850
Norway	6,009	0	0	0	6,009
Hungary	5,987	0	0	0	5,987
Finland	4,500	0	0	0	4,500
Canada	2,000	0	0	0	2,000
Iceland (e)	794	0	0	0	794
Poland	676	0	0	0	676
Latvia	36	0	0	0	36
TOTAL	1,158,222	858,642	80,097	13,136	2,110,097

Covered bonds are considered very safe investments; in Germany and Spain, their yields trade at very narrow spreads over sovereign bonds. The EU directive on communal investments allows funds to hold 25% of bond from one issuer, as opposed to 5% from one issuer for other types of bonds.

Two reasons to issue mortgage covered bonds

There are two reasons to issue mortgage covered bonds.

The first and most often cited is to bridge the gap created by the maturity mismatch between short term deposits and long term mortgages. Maturity mismatch is not a serious issue in Moldova because virtually all mortgages carry a floating interest rate and there is no long term yield curve. However, should a yield curve develop with true differentiation between short term and long term rates, and should banks begin issuing fixed rate mortgages, this issue will take on significance.

The second reason to issue mortgage covered bonds is to diversify the institution's sources of funding away from deposits. Deposits will always be the major source of funding in Moldova, but longer term bonds with staggered maturities help diversify the liability side of the ledger.

About This Guide

This guide is intended for potential issuers, regulators and investors. It explains in some depth the two central features of a covered bond—the mortgage pool and the bondholder representative—and establishes a firm link between these features and the Moldovan laws that support them: namely, Article 24 of the law "On Pledge" and the articles of the Civil Code that deal with representation.

Mortgage pool monitoring by means of an Agreed-upon Procedure is set forth in detail and step-by-step. And the role of the bondholder representative in determining what actions to take in the event of a technical default are explained.

The Appendix to the guide contains resource documents which flesh out concepts and procedures not fully explained in the text. The full text of ISRS 4400 (Agreed-upon Procedures) has been included, as has the text of proposed Covered Bond Regulation of the National Commission for Financial Markets. The Appendix also includes a time line and check list for covered bond issuance—the critical path to issuance, as it were—and examples of a bondholder representative contract and the portion of a prospectus (offering memorandum) dealing with covered bonds.

Although everything is in place for issuance, everything may not be in the right place. That is, potential issuers and regulators will have to work together to see that regulatory procedures fit the needs of issuers while still serving potential investors. The NCFM regulations were written without the benefit of a pilot issue, part of whose purpose is to discover where the bumps are in the road to issuance. There are bumps, but only the first to issue will know exactly where they are. In an ideal world, the first issuer would share that knowledge with both NCFM and his competitor issuers.

Finally, the European Covered Bond Council is the authority of covered bonds. Its website (http://ecbc.hypo.org) is an outstanding resource, and its management will welcome the opportunity to assist Moldovan issuers.

2. The Cover (Pledge)

The name 'covered bonds' derives from the fact that the face value of the bond is covered—i.e., collateralized—by a pledge of mortgages on the balance sheet of the issuer. In fact, the collateral may consist of two classes of financial assets: (1) mortgages and (2) government securities or deposits in other first-class banks. In mortgage covered bonds for Moldova, mortgages must make up at least 75% of the total cover; the mortgages may be either commercial or residential, but residential mortgages must account for no less than 85% of the total value mortgages in the mortgage pool. The total outstanding balance of the mortgage pool establishes the value of the mortgage portion of the total pledge.

Including government securities and bank deposits in the collateral is called a liquidity feature; that is, it gives the issuer some flexibility in structuring the collateral, allowing him to increase the amount of securities when there are stresses in the mortgage market. The present value of the government securities and/or deposits establishes the value of the non-mortgage portion of the total pledge.

By law, in Moldova, the face value of a covered bond cannot exceed 90% of the value of the collateral. Put otherwise, the value of the pledge cannot be less that 111.1% of the face value of the covered bond. Over-collateralization is called a credit enhancement; that is, collateral in excess of the face value of the bond lowers the credit risk associated with buying the bond.

Together the mortgage portion and the non-mortgage portion are registered as an aggregate pledge in the state registry of Moveable Property pledges. Financial assets are, of course, moveable property. 'Aggregate pledge,' according to Article 24 of the law "On Pledge," means that individual components of the pledge—mortgages or securities—may change over time but the overall value of the pledge and its defining characteristics do not change. The defining characteristic of a government security is that it is a government security. As explained in the following chapter, there are several defining characteristics of mortgages that may be included in the mortgage portion of the pledge. The notion that one mortgage may replace any other mortgage in a mortgage pool derives from the law on goods in transit, which is the basis for warehousing regulation, including grain warehouse receipts.

Summary of Pledge

The total value of the pledge, including both mortgage and non-mortgage assets, cannot be less than 111.1% of the face value of the bond at any time during its circulation.

The total value of mortgage assets cannot be less than 75% of the total value of the pledge or, inversely, non-mortgage assets may not account for more than 25% of the total value of assets in the pledge.

Residential mortgages must account for no less than 85% of the total value of mortgage assets or, inversely, commercial mortgages may not account for more than 15% of the total value of mortgage assets in the pledge.

The total outstanding balance of mortgage assets establishes the value of the mortgage portion of the pledge.

The total present value of non-mortgage assets establishes the value of the non-mortgage portion of the pledge.

3. Organizing, Maintaining and Analyzing the Mortgage Register

Preparing Electronic Mortgage Data

Upon issuance of a mortgage covered bond, some designated portion of the issuer's mortgage portfolio is registered as a pledge of moveable property to the bondholders. Individual mortgages which comprise the mortgage pool at the time of pledge registration may change, but the total value of the mortgages in the pool and their defining characteristic do not. However, the fact that mortgages in the mortgage pool become part of a legally binding pledge creates an implicit obligation on the part the issuer to ensure that the data on the mortgages in the pool are as correct as possible. The data must be periodically scrubbed, purging it to the greatest extent possible of orthographic and numerical errors so that a judge or a receivership administrator will not be able to exclude mortgages from the pool on the basis of misspellings or incorrect digits, no matter how trivial. Data should be scrubbed regularly as a part of routine mortgage pool maintenance.

Forming the Mortgage Register

The mortgage register contains only those mortgages in the portfolio which are pledged to bondholders as collateral for the mortgage covered bond. The mortgages in the mortgage register conform to delimiting criteria set forth in the prospectus and the law. The delimiting criteria are:

Standard Loans—Mortgages in the mortgage register must be standard loans in conformity with the regulation of the National Bank of Moldova.

Total Value of Mortgage Register—The total value of the mortgage register is the outstanding balance of commercial and residential mortgages in the register.

Original Loan to Value—The weighted average original LTV of the mortgage register must not exceed 75%.

Term to Maturity—The weighted average remaining term to maturity of the mortgage register cannot be less than the term to maturity of the bond.

Interest Rate—The weighted average interest rate of the mortgage register must be greater than the interest rate (yield) of the bond.

Residential or Commercial Property—The value of commercial mortgages may not exceed 15% of the outstanding balance of the mortgage register.

As stated in the preceding chapter, the total outstanding balance of the mortgage register must account for at least 75% of the total value of the pledge.

Note that the terms to maturity and interest rates of the non-mortgage portion (government securities, deposits) of the pledge are not taken into consideration when calculating weighted average remaining term to maturity and weighted average interest rate.

Mortgage Register Calculation Template
To ensure that mortgages in the mortgage register comply with the limits of these criteria, the mortgage register is periodically monitored by an auditor performing an agreed-upon procedure.

To facilitate the monitoring procedure, the issuer can export mortgage data from his bank or accounting software to the Excel template provided with this brochure. The template automatically calculates the weighted averages required by the agreed-upon procedure and, if the data are properly configured in the template, also performs other calculations necessary for bond issuance but not required for monitoring or reporting.

Sorting Mortgages by Type of Amortization
There are two types of mortgage principle amortization: (1) straight-line amortization, in which the amount of the loan is divided by the number of months in the term of the loan; and (2) annuity amortization, in which the amount of the monthly payment is fixed and the proportion of the interest and principle components of the payment changes slightly with each monthly installment (the amount of principle rising progressively).

Both types of amortization may be included in one mortgage pool. However, because the calculation of average monthly prepayment differs for each type, mortgages in one mortgage pool should be sorted by type

of amortization solely for the purpose of calculating prepayment. Once calculated separately by type, average monthly prepayment for the entire pool is determined by combining the results for each amortization type on a weighted basis.

All other calculations may be performed on the entire mortgage pool without regard for amortization type.

Sorting Mortgages by Book Year
While it is not mandatory, it is highly recommended that mortgages in the pool be sorted by book year; i.e., the year in which the mortgages were originated. Sorting mortgages by book year enables a more precise calculation of current LTV and comparative analysis of other performance indicators, which may prove particularly beneficial to the lender over time.

Required Fields
The following fields of data should be exported from bank or accounting software into the Excel template:
Loan Number
Name of Borrower
Address of Property
Original Loan Amount
Outstanding Balance of Loan
Original Loan Amount as a percent of Appraised Property Value (LTV)
Current Percentage Interest Rate on the Loan
Term to Maturity of the Original Loan in months
Remaining Term to Maturity on the Outstanding Balance of the Loan in months

Once data has been loaded into the appropriate fields, the template automatically calculates the following weighted averages:

LTV
Loan to value—the disbursed amount of the loan as a percentage of the appraised market value of the property.

Interest Rate
The contractual annual interest rate the borrower is obligated to pay, net of fees (PI insurance, term life insurance or other).

Term
The original term of the loan in months.

Months to Maturity
The number of months remaining in the contractual term of the loan.

The weighted average indicators are then used to calculate two other important mortgage pool metrics at the portfolio level: average monthly prepayment and Macaulay Duration with prepayment.

Average Monthly Prepayment

Mortgage prepayment—full or partial—is an unscheduled reduction of the outstanding balance of the loan by the borrower. By its very nature, prepayment accelerates the maturity of a loan and reduces its profitability by lowering the total amount of interest the lender earns. When mortgage interest rates fall, borrowers tend to re-finance their loans; re-financing (ie, paying off a previous mortgage with the proceeds of a new one at a lower rate) is simply total prepayment of the old mortgage. Otherwise, mortgages at high interest rates tend to partially prepay faster than mortgages at low interest rates.

In the context of mortgage covered bond issuance, however, prepayment takes on added significance because, just as with borrower defaults, total annual prepayment is the amount of new mortgages that will have to be added to the mortgage pool to maintain the fixed value of collateral (pledge). The issuer is therefore obliged to track prepayment rates periodically and systematically.

Average Monthly Prepayment also helps the issuer (and the bondholder representative) determine the periodicity of mortgage register monitoring. High rates of prepayment imply relatively fast turnover in the mortgage registered and a greater administrative load on the issuing institution. Therefore, the mortgage register should be monitored more frequently—as frequently as quarterly—during periods of high rates of prepayment.

The Excel template automatically calculates Average Monthly Prepayment and Average Annual Prepayment.

Duration with prepayment

Prepayment, as an unscheduled cash flow to the lender, accelerates maturity of the mortgage pool, dramatically shortening its duration. To account for the impact of prepayment, the issuer must include prepayment in the discounted cash flows that determine Macaulay Duration of the mortgage pool.

The Excel template automatically calculates duration with prepayment.

4. Bondholder Representative

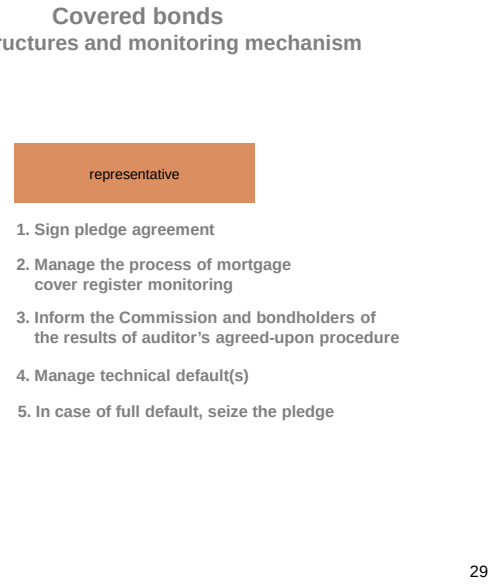
Overview

Bondholder Representative plays a key role in a covered bond. He is actually the trustee of the issue, acting in the interest of the bondholders by overseeing the process of monitoring the mortgage pool and intervening on behalf of the bondholders to remedy technical defaults. In the case of payment default or bankruptcy of the issuer, the bondholder representative should be in a position to quickly seize the pledge and place the mortgage pool with a backup servicer or sell it to another bank.

Ideally, the bondholder representative is bank. Given the small size of the Moldovan banking sector, however, there is strong resistance to the ideal. There is always resistance to the notion of another (competitor) bank having access to one's mortgage portfolio. The monitoring

procedures are structured precisely so that the bondholder representative never has direct access to the issuer bank's mortgage portfolio data, but that in itself is not enough to convince potential issuers to allow another Moldovan bank serve as their bondholder representative.

The bondholder representative does not have to be a bank. German *Pfandbriefe* do not require that the bondholder representative be a bank, and often it is not even a legal entity. Among the possibilities are an unaffiliated asset management company and a legal firm. Auditors may not serve as bondholder representative unless the law is amended to include representation as a authorized audit activity.



The bondholder representative derives his authority from a contract concluded with the issuer and the Civil Code, Statutes 242-258, governing representation.

Functions of the Bondholder Representative
The functions of the bondholder representative are:

1. Signing the pledge agreement on behalf of bondholders.
The need for a bondholder representative arises in the first place because the Pledge Agreement must be signed by both the pledge-giver and the pledge-holder. In theory, there are multiple pledge-holders and any one of them may elect to sell the bond at any time to a third party, who then becomes a pledge-holder in place of the first. Delegating authority of signature to the bond-holder representative removes the encumbrance of

multiple signatures of the pledge agreement, allowing the bond to circulate freely in the market.

The bondholder representative accompanies a representative of the issuer to the office of a Notary, who registers the Pledge in the state Registry of Moveable Property. The pledge is registered as a master (aggregate) pledge in accordance with Article 24 of the law "On Pledge."

2. Managing the Process of Mortgage Register Monitoring

The bondholder representative himself does not monitor the condition of the mortgage register. That function is carried out by the auditor who performs a periodic agreed-upon procedure at intervals established in the prospectus. However, the bondholder representative has the authority to change the interval (periodicity) of the agreed-upon procedure if, in his opinion, conditions warrant. The bondholder representative also has the authority to mandate the auditor to conduct an unscheduled agreed-upon procedure if, again in his opinion, conditions warrant.

The bondholder representative does not have the authority to alter the form of the agreed-upon procedure.

3. Informing the National Commission and the bondholders on the condition of the mortgage register

Upon the Auditor's successful conclusion of the periodic Agreed-upon Procedure, the Bondholder Representative makes public the Issuer's Report on the Condition of the Mortgage Register validated by the Auditor by releasing it to the bondholders and the National Commission.

4. Managing Technical Defaults

The criteria constraints imposed on the mortgage register are reasonable under ordinary conditions in smoothly functioning credit markets. Credit markets do not always function smoothly, however, and from time to time the metrics of the mortgage register may not fully comply with the criteria set forth in the prospectus. For example, after a hiatus in mortgage lending for a given period, a bank may not be able to maintain complying mortgages at a level of 80% of the mortgage register. When the mortgage register is not in full compliance with the criteria set forth in the prospectus or the law, the issuer is said to be in technical default; that is, the issuer continues to make periodic interest payments, but the mortgage register does not fully comply with the terms of issuance.

An issuer is in technical default when he is unable to remedy a deficiency in the mortgage register immediately upon its discovery either by the issuer himself or by the auditor performing the agreed-upon procedure. If the issuer is able to remedy said deficiency immediately upon its discovery, there is no default.

It is the role of the bondholder representative to determine the amount of time, called a 'grace period' (typically, 30, 60 or 90 days) the bondholders will allot to the issuer to remedy the default condition. If the technical default is of minor significance and the issuer is otherwise in good financial condition, the bondholder himself may determine the length of the grace period, informing the bondholders and NCFM of the nature of the technical default and the amount of time the issuer has to correct the deficiency. However, if the mortgage register is deficient in more than one measure or if other unfavorable circumstances attend the default condition, the bondholder representative may consult directly with the bondholders via a general bondholder meeting to determine the appropriate grace period under the circumstance.

If the technical default cannot be remedied within a grace period of specific length, bondholders have the right to force the issuer to repay the principal and all accrued interest on the bond prior to maturity at the expiry of the grace period.

5. Payment Default

In the event the issuer fails to make a scheduled payment of interest or principal, or makes such a payment in an amount inferior to the properly calculated amount, the bondholders have the right to seize the pledge, and the bondholder initiates the legal action necessary to do so.

Compensating the Bondholder Representative

The functions and responsibilities of the Bondholder Representative may be divided into two categories. The first category, which we will call 'ordinary functions and responsibilities,' is comprised of five clearly defined administrative functions, including managing technical defaults which are easily resolved and do not become litigious. The second category includes less clearly defined functions and responsibilities associated with litigious default and bankruptcy.

Clearly the Bondholder Representative's ordinary functions and responsibilities are neither onerous nor time-consuming, and none entail third-party (bondholder) legal liability for the Bondholder Representative because, in remedying technical defaults, the Bondholder Representative has recourse to a general bondholder meeting to determine the remedy which best serves the majority of bondholders. By contract, the Issuer pays the Bondholder Representative a periodic fee for the performance of the ordinary functions set forth above.

In the case of litigious default or bankruptcy of the Issuer, where the Issuer may be either unwilling or unable to make periodic payments to the Bondholder Representative, the latter has the right to (1) double the

periodic fee for the period of the litigious default or bankruptcy and (2) cover that fee and any out of pocket expenses [legal, audit, secondary servicing, other] related to the default or bankruptcy proceedings out of the proceeds from the sale of the mortgage pool or, if pool is not sold, out of periodic interest income from the pool.

5. The Auditor and Agreed-upon Procedure

Overview

Monitoring the condition of the mortgage register entails comparing the contents of selected mortgage loan files with their corresponding entrees in the Excel version of the mortgage register then checking that the Excel weighted average and other calculations for the entire mortgage register are correct. The procedure is not an audit; it is an auditing function called an Agreed-upon Procedure, recommendations for conducting which are set forth in ISRS 4400 in Appendix X.

An Agreed-upon Procedure does not require an auditor's opinion; it requires only a report on the results of the procedure. That report, however, may be distributed only to those parties for which it is conducted. In the case of mortgage register monitoring, the Agreed-upon Procedure is conducted for use by the issuer and the bondholder representative. So that the auditor is able to report to both the issuer and the bondholder representative, it is recommended that the issuer conclude a tripartite agreement with the auditor and the bondholder representative which states clearly the right of the bondholder representative to receive the auditor's report.

On the basis of the auditor's report on the Agreed-upon Procedure, the bondholder representative determines if the mortgage register is in compliance with the law and the prospectus. *Note that the auditor does not make this determination.* The auditor only reports on the results of the Agreed-upon Procedure as set forth below. The bondholder representative is the arbiter of the mortgage register's compliance with law and the prospectus.

Issuer's Report on condition of mortgage cover

Issuer's Report on condition of Mortgage Cover
for mortgage bond No. xxxxxxxxxxxxx
for the reporting period ended xx.xx.xx

1 Number of loans:
2 All mortgage loans are standard according to the NBM classification
3 All mortgage loans not pledged to other creditors
4 Outstanding Balance of Mortgage Loans:
5 Present Value of other Assets in the Pool:
6 Weighted Average Outstanding Term to Maturity of Mortgage Loans:
7 Weighted Average Interest Rate on Mortgage Loans:
8 Weighted Average LTV of mortgage loans:
9 Percentage of residential mortgages in mortgage pool:

President of Bank Chief Accountant

15

Procedure for Monitoring the Mortgage Register

Periodic and Unscheduled Agreed-upon Procedures
As stated earlier, the bondholder representative has the right to schedule unplanned Agreed-upon Procedures. There is no difference in the actual Agreed-upon Procedures. In an unplanned procedure, the bondholder representative simply requests that, within two business days, the issuer send him the "Issuer's Report on the Condition of the Mortgage Register" and provide the auditor with the most recent data from the mortgage register and office space where the auditor can conduct the procedure.

Initiating the Agreed-upon Procedure
The agreed-upon procedure is initiated by the Issuer who, in accordance with law and the investment memorandum (prospectus), within five business days of the end of a reporting period sends the bondholder representative a report entitled "Issuer's Report on the Condition of the Mortgage Register."

The Bondholder representative acknowledges receipt of said report in writing, requesting that the Issuer forward to the Auditor the Mortgage Register. Simultaneously, the bondholder representative forwards to the

Auditor the Report on the Condition of the Mortgage Coverage and instructs the Auditor to verify the report by conducting the Agreed-upon Procedure.

Upon receipt of the Mortgage Register from the Issuer, the Auditor constructs a random sample of the register, using acceptable sampling methodology. The Auditor sends the Issuer the list of the loan numbers in the random sample and requests that the Issuers make those files available to the Auditor's personnel for the agreed-upon procedure. (It is customary for the auditor's personnel to perform the agreed-upon audit procedure on the issuer's premises.)

Details of the agreed-upon procedure

A. Validating the Mortgage Register

The Auditor verifies that entries for the following components of every mortgage file in the sample comply exactly with entries for the same components as recorded in the Mortgage Register:

1. Payment Status (standard or non-performing)
2. Original Loan Amount
3. Current Outstanding Balance
4. Loan-to-Value (of original loan amount)
5. Current Interest Rate
6. Original Term to Maturity
7. Remaining Term to Maturity
8. Residential or Commercial Loan
9. Not otherwise pledged

Failure of any entry of any component in the sample files to comport exactly with its counterpart entry in the Mortgage Register invalidates both the Register and the Issuer's Report on the Condition of Mortgage Register.

The Bondholder representative informs the Issuer of the failure and instructs him to recompile the Mortgage Register and reissue the Issuer's Report on the Condition of Mortgage Register within two business days.

Exact compliance of all components in the sample files with their counterparts in the Mortgage Register validates the Register.

B. Verifying Calculations in the Issuer's Report on the Condition of the Mortgage Register

The Auditor verifies the following calculated components of the Report on the Condition of Mortgage Register by either (1) recalculating the

components or (2) verifying the formulas used in the Excel spreadsheet to calculate the various calculated components:

1. Outstanding Balance of all mortgage loans
2. Outstanding Balance of all mortgage loans and present value of other assets in the pool
3. Weighted Average Remaining Term to Maturity of mortgage loans
4. Weighted Average Interest Rate of mortgage loans
5. Weighted Average original Loan-to-Value
6. Residential loans as a percent of mortgage loans

Failure of any component calculated or verified by the Auditor to conform exactly to its counterpart in the Issuer's Report invalidates only that calculated component. The auditor informs the Issuer of the failure and requests the Issuer recalculate the component within two business days.

Exact compliance of all components recalculated or verified by the Auditor with their counterparts in the Issuer's Report on the Condition of the Mortgage Register constitutes successful conclusion of the Agreed-upon Procedure for the date of record.

The Auditor sends the following to the Bondholder representative: "During [dates], [Auditor] conducted the Agreed-upon Procedure in compliance with the prospectus and Regulations X-XX of the Securities Commission and found no material discrepancies in the Issuer's Report on the Condition of Mortgage Register of Mortgage Bond No. XXXXXXX, of [date of record]."

2. Procedure for Bond Bondholder representative

Upon receipt of the auditor's statement, the Bondholder representative then compares the components of the Issuer's Report on Condition of Mortgage Register to the requirements in the prospectus, the law and pertinent regulation as follows:

> 1. Outstanding Balance of all mortgage assets constitute at least 75 percent of the total value of the pledge.
> 2. The face value of the bond does not exceed 90 percent of the Outstanding Balance of all mortgage assets and the present value of other assets in the pledge.
> 3. Weighted Average Remaining Term to Maturity of mortgage assets in the mortgage register is equal to or greater than the remaining term of the bond.
> 4. Weighted Average Interest Rate of the mortgage assets in the mortgage register is greater than the interest rate on the bond.

5. Weighted Average initial Loan-to-Value of the mortgage assets in the mortgage register is not greater than 75 percent.
6. Residential mortgages comprise no less than 85 percent of the mortgage assets in the mortgage register.

If each component of the Issuer's Report on Condition of the Mortgage Coverage is in compliance with requirements, then the bond issue is deemed to be in compliance with the Law, all pertinent Regulation and the prospectus. The Bond Bondholder representative then transmits to the issuer, bondholders and the commission the following statement: "Based on the results of the Agreed-Upon Procedure performed on [date] by [auditor], Bond [Registration No.] is in compliance with the Law, all pertinent regulations and the prospectus."

If not, the Bond Bondholder representative transmits to the issuer, bondholders and the commission the following statement:

"Based on the results of the Agreed-Upon Procedure performed during[date] by [auditor], Bond [Registration No.] the pledge does not comply with requirements. The Bond Bondholder representative hereby officially requests the Issuer to bring [Item Number][Item Title] into compliance within [number of days] or be declared in technical default."

Once the Bond Bondholder representative has transmitted either statement to the issuer, bondholders and the commission, he has fulfilled his current obligation as Bond Bondholder representative for the period in question.

6. The Prospectus and The Road Show

The Prospectus

The prospectus is written by the Issuer with the assistance of his Financial Advisor or Underwriter, if a financial advisor or underwriter is used. While it is customary to employ the services of financial advisors and underwriters in advanced economies, it is certainly not mandatory and, in Moldova, financial advisors are no more familiar with covered bonds and bond markets than anyone else because there are no domestic bond markets and, to-date at least, no covered bonds. A prospectus, on the other hand, is mandatory. The prospectus, also called an offering memorandum, serves three purposes.

First, it informs potential investors about the financial condition of the Issuer. The information on the financial condition of the issuer must be based on audited data and it is, therefore, usually taken from the Issuer's last three annual reports.

Second, the prospectus advises potential investors of the general business risk facing the Issuer and the specific risks which attend to owning the Issuer's bonds.

Last, the prospectus sets forth the terms and conditions of the bond issue which, together with the law and bond regulations of the National Commission, govern the conduct of the Issuer and Investors in the bonds.

In the case of covered bonds, however, the terms and conditions—collectively called the bond indenture in English—must specifically spell out for investors the defining characteristics of the aggregate pledge and the functions of the bondholder representative, including the circumstances under which said bondholder representative has the right to convene a general meeting of bondholders.

It must be made especially clear to potential investors that, by submitting a bid and purchasing the bond, the investor effectively signs a power of attorney, enabling the bondholder representative to carry out the functions set forth above. The indenture must therefore identify the proposed bondholder representative and, though it is not necessary to reveal the bondholder representative's compensation schedule, the terms and conditions of his employ by the issuer should be clearly set forth.

The Road Show

One of the most serious impediments to bond issuance in Moldova is the absence of institutional investors—private pension funds, mutual funds, life insurance companies, et al. It is, of course, expensive, time-

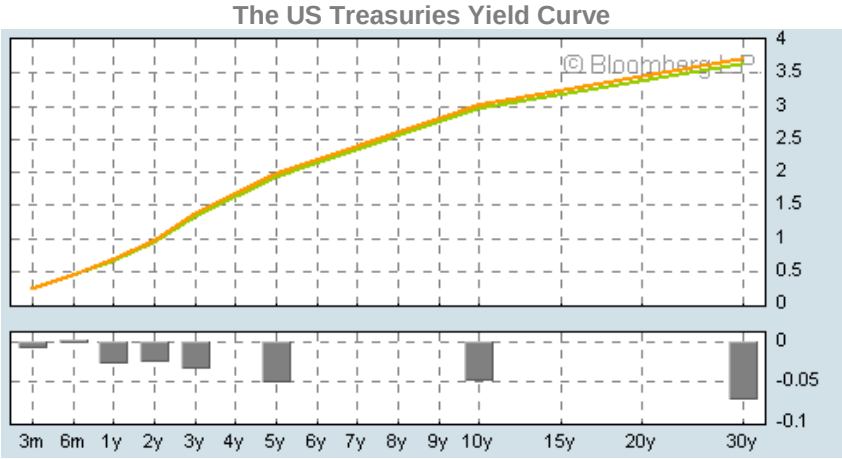
consuming and administratively burdensome to place a large issue with a multitude of individual small investors whose knowledge and understanding of financial markets and fixed-income instruments is limited. But the likelihood of private pension funds developing in Moldova in the short term is not good for two reasons: (1) deposits aside, there are no financial instruments in the country for them to invest in and (2) there are actuarial problems with developing annuities for such small populations. The first issue is not just a chicken-and-egg problem; the fact is, for the immediate future, any funds accumulated in Moldova would have to be invested offshore—Europe, US, Russia—where they would automatically create currency mismatches for future pensioners, the risk of which should be outside the prudential norms of pension regulation. The second issue is technical in nature (i.e., retiring annual cohorts in Moldova can never constitute a statistically valid sample for the purposes of calculating annuitant mortality) and can probably be overcome by some enterprising actuarial modeling, but it remains a disincentive to market entry for life insurance companies, the usual issuers of annuities.

Thus, the issuer of covered bonds in Moldova should give considerable thought to the problem of how to place an issue. The issuer should first identify those 'institutional investors' who might have an interest in buying a covered bond: banks, general insurance companies and larger corporations with excess cash. Then, the issuer should turn his attention to the problem of placing a bond at the retail level. The road show for 'institutional investors' will probably differ markedly from that for retail investors.

In any event, a road show is nothing more than a sales pitch for the bond and, regardless of the audience, the issuer should present those features of covered bond which are most appealing to investors—collateral makes the bond a safer investment than deposits, and the longer term lessens reinvestment risk.

7. Pricing the Bond

In markets with active corporate bond issuance, pricing any bond is a relatively straightforward process and mortgage covered bond even simpler. As stated earlier, the primary reason for issuing a mortgage covered bond is to eliminate the maturity mismatch between short deposits and long term mortgages. In fact, issuing a mortgage covered bond whose duration perfectly matches the duration of the underlying mortgage portfolio, the issuer closes the duration gap between liabilities and assets. It is the duration of the underlying mortgage portfolio that determines the duration and, thus, term of the bond. At a certain level of interest rates and rates of prepayment, a mortgage portfolio with a duration of 36 months will equate to a covered bond with a maturity of, say, five years.



Having determined the term of the bond, the issuer then refers to a benchmark yield curve—the yield curve for government securities, for example—to determine the reference five-year yield. Government securities, of course, are considered risk free; a mortgage covered bond, while very safe, will 'price' at some premium to the government five-year yield depending on the perceived credit risk of the issuer—his rating. We'll assume that issuer credit risk adds 50 basis points to the yield investors expect at five years. Thus, in the example above, the

issuer would set a coupon yield (interest rate) of 2.50%--consisting of the 2.0% government yield plus 50 basis points of credit risk. Bidding on the issue, investors will further refine the bond's pricing with discounts or premiums to its face value.

Unfortunately, the Moldovan interest rate environment is not particularly rich. There is really no yield curve to speak of: National Bank sterilization notes at the very short end of the interest rate spectrum, Ministry of Finance bonds at the two year mark, and no corporate bonds outstanding at all. Commercial bank deposit rates dominate the environment, and most term deposits are in the six months to one year range. The 'market' does not give an issuer a lot of guidance on how to price a covered bond which, at current mortgage interest rates and maturities, will have a duration of about thirty months.

On the other hand, the 'market' is not complicated. There are no sacrosanct credit spreads to justify, and no one can make compelling arguments about the time value of money when effectively there is no money anywhere in the country at a term longer than two years.

In fact, a covered bond will be competing for funds against one year term deposits, and against that competition it has a very clear advantage: a covered bond is secured by a pledge of long term financial assets. Deposit have a government guarantee but only on a modest portion of total deposits.

Anyone contemplating issuance at a term of, say, three years should orientate himself to the one year deposit rate. Fixing the initial coupon interest rate at fifty basis points on either side of the one year deposit rate is probably a good starting point. The issuer assigns the coupon yield; the investor establishes the price of the bond.

The one year deposit rate can also serve as the index yield for a floating rate bond. The issuer index the interest rate on the bond to the average one year deposit rate of the preceding three months; that is, the interest rate on the bond is at some fixed spread above or below the average one year deposit rate for the preceding three months, and the issuer has the obligation to adjust the rate up or down every three months.

ATTACHMENT 5

Regulation Regarding Corporate Bonds Issue, Circulation and Redemption

Chapter and Section	Responsible	Preparation, %
I. General Provisions		
1.1. Initial provisions	ATCI	
1.2. Special Definitions	ATCI	
II. Bonds Characteristics		
2.1. Bonds classes, issues and series	ATCI (S.S)	
2.2. Mortgage bonds particularities	ATCI (S.S)	
2.3. Convertible bonds particularities	ATCI (S.S)	
III. Issuers and bonds issues stages		
3.1. Requirements to issuer	ATCI (A.S.)	
3.2. Bonds issue stages	ATCI (S.S.)	
IV. Decision regarding bonds issue and prospectus of bonds public offer		
4.1. Procedure of approval the decision regarding bonds issue	ATCI (A.S.)	
4.2. Requirements to the decision regarding bonds issue	ATCI (S.S.)	
4.3. Requirements to bonds public offering prospectus	ATCI (M.G.)	
4.4. Commercial representative	ATCI (A.S. +S.S.)	
4.5.Registration of bonds public offering prospectus	ATCI (S.S.)	
V. Bonds placement		
5.1. Procedure of bonds placement	ATCI (A.S.)	
5.2. Disclosure of information on bonds placement	ATCI (A.S.)	
5.3. Bonds issue suspension and declaring it non performed or not valid.	ATCI S.S.)	
VI. Bonds Security		
6.1. Procedure of pledge constitution	ATCI (S.S.)	
6.2. Particularities of mortgage cover pledge	ATCI (S.S.)	
6.3. Procedure of third party guarantees	ATCI (A.S + S.S.)	
VII Registration and canceling of bonds issue results		
7.1. Registration of bonds issue results	ATCI (S.S.)	
7.2. Cancelling of bonds issue	ATCI (S.S.)	
VIII. Circulation of bonds and payment of interest on bonds		
8.1. Disclosure of information regarding bonds circulation	ATCI (A.S.)	
8.2. Trading of bonds	ATCI	

	(A.S.)	
8.3. Payment of interest on bonds	ATCI (S.S.)	
IX. Protection of bondholders rights in case of issuer default		
9.1. General meeting of bondholders	ATCI (A.S.)	
9.2. Execution of pledge right	ATCI (A.S.)	
9.3. Execution of third party guarantees	ATCI (A.S.+S.S.)	
X. Redemption of bonds issue		
10.1. Procedure of bonds issue redemption	ATCI (S.S.)	
10.2. registration of bonds issue redemption	ATCI (S.S.)	
XI. Supervision. Final provisions		
11.1 Supervision	ATCI (S.S.)	
11.2. Final provisions	ATCI (S.S.)	
Annexes:		
Annex. Minimal composition of bonds public offering prospectus	ATCI (M.G.)	
Editing	CNPF + ATCI	

I. General Provisions

1.1. Initial Provisions

1. The Regulation regarding the procedure of issue, circulation and redemption of corporate bonds (hereinafter – *regulation*) is drafted in conformity with the Civil Code of the Republic of Moldova no. 1107-XV from June 6, 2002 (Official Monitor of the Republic of Moldova, 2002, no. 2-86/661), with further amendments and completions, Law on the securities market no. 199 from November 18, 1998 (Official Monitor of the Republic of Moldova, 1999, no.27-28/123), with further amendments and completions, Law on joint stock companies no.1134-XIII from April 2, 1997 (Official Monitor of the Republic of Moldova, 2008, no. 1-4/1), Law on mortgage no.142-XVI from June 26, 2008 (Official Monitor of the Republic of Moldova, no.165-166/603) and Law on the National Commission of Financial Market no. 92-XIV from November 12, 1998 (Official Monitor of the Republic of Moldova, 2007, no. 117-126 BIS).

2. The present Regulation defines the process of organizing the fulfillment of exigencies referring to issue, circulation and redemption of corporate bonds, as well as to their issuers.

3. The particularities of preparing and placement of bonds by commercial banks, including the authorization for such bonds placement, are regulated by normative acts of the National Bank of Moldova. *[point 1.2 of the NBM Regulation no.181 from 22.06.2000].*

1.2. Special Definitions

In the sense of present Regulation the following definitions will be used:

mortgage cover – universality of goods that include pecuniary claims (account receivables) of the issuer and that ensure fulfillment of pecuniary obligations deriving from mortgage bonds placed by the issuer;

paying agent – commercial bank which, according to the contract with the issuer, makes the payments related to placed bonds, as well as to other types of banking operations associated with bonds;

bonds issue canceling – totality of actions undertaken by the issuer under the established procedure in view of all bonds of previously made issue redemption and/or annihilation;

class of bonds – totality of one issuer bonds, of the same type and with the same distinctive characteristics offering equal rights to bondholders;

bonds convertibility coefficient – number of shares, which the bondholder of a convertible bond, has the right to get;

commercial loan – loan issued for procurement of immovable goods on the primary or secondary market for commercial purposes;

mortgage loan – bank loan or pecuniary loan secured by mortgage;

housing loan – credit issued for procurement of residence on the primary or secondary market;

default – non fulfillment by issuer of pecuniary obligations related to bonds;

technical default – failure to fulfill one or several minimal requirements of mortgage cover, without non fulfillment of pecuniary obligations to bondholders;

issuance of bonds – totality of bonds of one issuer belonging to the same class and which have the same term of circulation; *results from point 3 of the Regulation no. 76-5-97*

issue of bonds – complex of operations to be undertaken by the issuer in view of placement and registration of bonds; *point 3 of the Regulation no. 76-5-97*

secured bond – bond which patrimonial claims (payment of principal and interest on it) are ensured by specific pledged goods of the issuer and/or by contractual obligations of third parties.

convertible bond – bond whose holder has the right to transform it in shares of the same issuer under the procedure and term established in the public offering prospectus of convertible bonds;

art.163 para.(3) of the CC; art.16 para.(5) of the Law nr.1134/1997, point 5.3of the Regulation nr.72/1-1997, para. (12) of the Preamble of the Directive 2003/71/CE, art.223. para.(1) of the Law nr.297/2004 Ro, art.45 of the Regulation nr.1/2006 Ro.

bond with coupon – bond which issuer is obligated to redeem the nominal value of the bond, as well as to regularly pay off the income in the form of interest;

bond without coupon (discount bond) – bond which is placed with discount (reduction) as to its nominal value and which issuer is obligated to pay only the nominal value of the bond on maturity;

mortgage bond – bond which execution of pecuniary obligations is secured by pledging the mortgage cover and the activity of the commercial representative of bondholders;

unsecured bond – bond, which pecuniary claims (payment of principal and interest) are not secured by specific goods of the issuer or by contractual obligations of third parties. However, the holder of such bonds can exercise the right over the goods of the issuer under general procedure;

nominative bond – bond, which holder is registered in the register of holders under the established procedure;

period of conversion – period during which the holders of convertible bonds have the right to request transformation of bonds in shares of the same issuer;

grace period – part of the period of bonds circulation, for which the interest on bonds is only calculated but is paid after the expiration of this period;

price of conversion – price of one share established in the public offer prospectus with the purpose of calculating the number of shares in which a convertible bond will be transformed;

procurement of bonds by the issuer – procurement by the issuer, on its decision, of placed bonds before their maturity, without their withdrawal from circulation;

redemption of bonds – procurement of bonds by issuer upon the request of their holders, before their maturity, without their withdrawal from circulation;

mortgage cover register – internal register of the issuer reflecting the requisites of bank credit contracts and mortgage contracts, as well as the main characteristics of each high liquidity asset included in the mortgage cover, as well as ensuring the execution of the report regarding the mortgage cover situation in general;

renewal of mortgage cover – replacing of mortgage credits or mortgage loans from the mortgage cover, including new loans or credits, upon case, including high liquidity assets in the cover with the purpose to observe the minimal requirements established in the bonds public offer prospectus;

*commercial representative of bondholders (*hereinafter – commercial representative) – legal entity representing the collective interests of one class of bondholders and exercising the attributions established by present Regulation *[art. 2 of the Law of Romania 32/2006, art. 1 of the Law of Kazakhstan 461/2003].*

series of bonds – totality of bonds of one issue of bonds which differs from other series of bonds of the same issue by its own maturity;

redemption of bonds – redemption or procurement by the issuer of placed bonds, accompanied by fulfillment by the issuer of all its pecuniary obligations to bondholders and withdrawal of bondholders from the circulation;

amount of bonds issue (issuing) – sum of nominal value of all bonds of this issue (issuing);

suspending of bond issue – establishing, as reserve, by the National Commission or Court, an interdiction to continue the issue of bonds;

term remaining until the reimbursement of credit - term remaining after specific date until the contractual date of full reimbursement of mortgage loan;

type of bonds – corporate, municipal and other bonds depending on the type of the issuer; *para . (7) art.163 of the CC.*

mortgage credit value – part of the mortgage loan remained for reimbursement (outstanding balance) as of a defined date;

nominal value of bonds (principal) – value (monetary sum) to be paid by the issuer on bond redemption, at the maturity date established in the bonds public offer prospectus; *point 4 of the NBM Regulation nr.200/2004.*

total value of mortgage cover - total value of mortgage loans and other high liquidity assets included in the mortgage cover, as of defined date.

II. BONDS CHARACTERISTICS

2.1. Classes, Issues and Series of Bonds

1. The issuer has the right to issue bonds of one or several classes. *art.14 para. (9) of the Law nr.1134/1997.*

2. Bonds of one class offer to their holders an equal volume of rights to subscription, circulation and redemption of bonds.

3. Issuer has the right to issue:

a) bonds with coupon and without coupon;
b) secured and unsecured bonds;
c) convertible and non convertible bonds;
d) callable and non callable bonds;
e) other types of bonds not contravening to the legislation.

4. Issuer has the right to issue only nominative bonds. *art.11 para. (4) of the Law nr.1134/1997*

5. The description of classes' of bonds shall include the following characteristics:

a) indication that the bond has a nominative corporate character;
b) nominal value of the bond;
c) form of the bond;
d) interest rate on bonds and method of interest rate calculation;
e) periodicity of calculation and payment of interest rate on bonds;
f) procedure of securing the pecuniary obligations of issuer to bondholders;
g) possibility and procedure of conversion (impossibility of conversion) of bonds in shares of the issuer;
h) possibility and procedure of calling or the impossibility of calling bonds by the issuer;
i) right (lack of right) of bondholders to request redemption of bonds before expiration of the term of their circulation and the procedure of this right execution. *art. 2 para (2) of the Regulation nr.1/2006 Ro*

6. The description of the class of bonds can include, on the discretion of the issuer, other essential characteristics not contravening to the law.

7. The description of the class of bonds shall be identical in the decision on bonds issue, in the bonds public offer prospectus, in the state register of securities and in the contracts on bonds' subscription.

8. The nominal value of one bond shall be expressed in national currency and shall be divisible to 100 lei. *art.16 para. (4) of the Law nr.1134/1997. NBM Regulation nr.200, pct.4 şi 5.*

9. The bonds of one class shall be issued only in a single form. *para. (3) art. 11 of the Law nr.1134/1997*

10. The nominal interest rate on bonds is determined as the ratio of the annual interest quantum (percent or discount) to the nominal value of bond and is expressed in annual terms.

11. The issuer has the right to issue coupon bonds with fixed and floating rate.

12. While issuing bonds with floating rate the decision on issue and bonds public offer prospectus shall additionally include the following issues:

a) conditions when the interest rate on bonds is modified:

b) method of determining the modified interest rate on bonds. *point. 1.9 of the Regulation nr.72/1-1997 and the best international practice.*

13. Execution of pecuniary obligations on secured bonds is guaranteed by the issuer by pledging own assets and/or third parties goods, and/or bank guarantee, and/or fidejussor, and/or insurance policy. *Reference to art.18[1] para. (2) of the Law nr.199/1998*

14. The secured bond, including mortgage bond, offers to its holder all rights emerging as a result of the respective cover. Transmission of the right of property over a secured bond to the new owner entails transmission of all rights deriving from the respective cover. *art. 181 para. (3), of the Law nr.199/1998 on the securities market.*

15. The sum of secured bonds issue can not exceed 90% of the market value of pledged goods. The issuer has the right to include in the calculation of the sum of issue the income on the bonds existing at the moment of satisfaction and other expenses associated with redemption of debt on bonds. *Reference to art.18[1] para (11) of the Law nr. 199/1998*

16. The sum of bank guarantee, and/or fidejusson, and/or insurance policy can not be less than the amount of bond issue.

17. In the case of joint application of pledge and other methods of guaranteeing the pecuniary obligations on secured bonds, the provisions of point 13 are applied to the corresponding parts of pecuniary obligations, which sum is indicated in the public offer prospectus of pecuniary bonds.

18. The prospectus of public offer of bonds will include:

a) information regarding the method and size of cover, composition and sum of pecuniary obligations guaranteed through the respective method of covering;

b) provision regarding guaranteeing by law of demise to bondholders of the execution claim of pecuniary obligations cover on placed bonds; *reference to point .6.6 of the Regulation nr.72/1-1997*

c) report on market evaluation of non monetary goods pledged with the purpose to cover the pecuniary obligations with respect to placed bonds or the report on the initial mortgage cover confirmed by auditor note under the agreed procedure.
Results from art. 18[1] para. (10) of the Law nr.199/1998; art.11 of the Law №989/2002.

19. The decision on issue and prospectus of unsecured bonds public offer shall include additional data confirming the compliance by the issuer of the conditions for the issue of non secured bonds.

20. Each issuing will include only bonds of a single class.

21. The issuer has the right to place a bond issue with only one maturity or to divide the issuing of bonds in several series with different maturities. *Best international practice.*

2.2. Particularities of Mortgage Bonds

1. The issuers of mortgage bonds can be:

a) commercial banks which provided and/or acquired mortgage loans ; *art.2 letter 10 of the Law nr.32/2006 Romania*

b) non banking financial organizations provided and/or acquired mortgage loans and which supervision is performed by a competent authority of the central public administration.

2**.** The protection of legal rights and interests of bondholders will be executed by their commercial representative based on the legislation, prospectus of public offering and the agreement.

3. Assistance in mortgage cover management is provided by the auditor, coordinating its activity with the issuer and representative under the procedure established in the agreement, prospectus of public offering of bonds and present Regulation.

4. The public offering prospectus of mortgage bonds will include the following information with respect to the procedure and volume of coverage, composition and sum of monetary obligations guaranteed by mortgage cover:

a) information regarding commercial representative, including its powers and relevant commission fee;
b) minimum requirements to mortgage cover;
c) order of mortgage cover register keeping;
d) conditions, order and terms of mortgage cover renewal;
e) indication that the agreed-upon procedure of assistance in mortgage cover management will be applied with respect to mortgage cover, as well as information regarding the auditor – executor of this procedure;
f) description of agreed-upon procedure of assistance in mortgage cover management, as well as the list of persons with whom this procedure was coordinated (hereinafter – *agreed-upon procedure*).
ISRS 4400; art.7 para (4) of the Law nr.3480/2006 Ukraine

5. The issuer has the right to propose, in the prospectus of public offering of bonds, a candidate for the replacement of the commercial representative.
art.12 para. (3) of the Law nr.32/2006. Romania

6. The minimum requirements to mortgage cover shall include the following:

a) minimum requirements to separate mortgage loans, which are included in mortgage cover structure;
b) general systemic minimum requirements to mortgage cover as a universality of future goods.

7. The procedure of keeping the mortgage register shall include:

a) requisites of each mortgage loan contract included in the register;
b) composition of each mortgage loan contract (if such loans contracts were drawn separately) which secure the respective bank loan, as well as the type of mortgage;
c) reasons and order of introducing and deleting of entries in the register of mortgage cover;
d) requirements to composition and periodicity of execution of the report regarding mortgage cover, as well as the list of persons to whom it shall be submitted;
e) access of auditor to the entries of the mortgage cover register and relevant primary documents of the register;
f) order and term of transmission of mortgage cover register in case of issuer default.

8**.** The description of agreed-upon procedure shall include the following:

a) description of composition and distinctive particularities of agreed-upon procedure;
b) methods of calculation of general quantitative characteristics of mortgage cover;
c) methods of random selection of separate loans from the mortgage cover;
d) periodicity of agreed-upon procedure conducting;
e) description of content of the report on the results of agreed-upon procedure conducting;
f) list of persons to whom the reports on the results of agreed-upon procedure conducting will be submitted. *ISRS 4400; art.6, para (1) of the Law nr. 61/2007.*

2.3. Particularities of Convertible Bonds

1. The decision regarding issue of convertible bonds is adopted only by the general meeting of shareholders of the issuer. *Art. 50 para. (3) and art.65 para.(2) lit.g^1) of the Law nr.1134/1997 ; art.18^{1}l para (7) of the Law nr.199/ 1998.*

2. Convertible bonds can be converted only in shares. *Art.16 para.(5) of the Law №1134/1997.*

3. The decision regarding issue and the prospectus of public offer ingprospectus of convertible bonds shall include, additionally to requirements indicated in point…. , the following provisions:

a) description of type, class and nominal value of convertible bonds which the issuer assumes to issue;

b) indication of total number of shares in which the bonds can be converted, including the number of shares to be issued for that purpose;

c) indication of conversion price and coefficient;

d) description of conditions and methods of changing the conversion price and size of conversion coefficient, if these characteristics are floating ones;

e) indicating the calendar date (calendar dates) of execution of the list (s) of holders, description of type, class and nominal value (declared) of shares which the issuer assumes to issue with the purpose to convert the respective bonds into these shares; bonds entitled for conversion;

f) description of restrictions established by the issuer with respect to subscription of convertible bonds, upon case:

g) indicating the beginning and ending of the term during which the bondholders have the right to convert them in shares;

h) description of bonds conversion procedure;

i) procedure of execution by the shareholders, holding shares with voting rights or bonds convertible in shares with voting rights, of its preemption right while procuring convertible bonds in shares with voting rights;

j)description of requirements to the application regarding conversion of bonds in shares or the form of this request;

k) maximum period, during which the issuer assumes the obligation to execute the request on conversion of bonds in shares. *art.12 para. (4) lit. c) of the Law nr.199/1998.*

4. The convertible bonds of a specific class can be converted in shares of only one class.

5. The convertible bonds can be converted in shares of an additional issue and/or treasury shares.

6. The coefficient of bonds conversion (**Cconv**) is determined under the following formula:

Cconv = Vobl/Pacț, where:

Vobl – nominal value of convertible bonds, lei/bond;

Pact – conversion price, lei/share.

7. In case of consolidation or fractionating shares in which the bonds will be converted, the conversion price and conversion coefficient of bonds will be recalculated keeping parity with the initial conversion price. *art.215, para. (5) din Търговски закон, Bulgaria*

8. If in the decision or in the prospectus of public offer of convertible bonds the conditions and procedure of modification of conversion price and conversion coefficient is not provided, these characteristics are considered fixed for the whole period of convertible bonds' circulation.

9. The total sum of shares of additional issue and treasury shares, in which bonds can be converted, should provide for transformation of all convertible bonds that are in circulation.

10. Pursuant to art.27 para (1) of the Law on stock companies nr.1134/1997, the shareholders of the issuer holding shares with voting rights, bonds or other securities of the issuer, convertible in shares with voting rights, have the right to pre-emption on procurement, on the primary market, of bonds convertible in shares with voting rights.

11. The potential holders of convertible bonds fall under the incidence of restrictions provided by law. *Point n) of Annex nr.1 of the Regulation nr.72/1-1997 and art.12 para. (4) letter b) of the Law nr.199/1998.*

12. The date of closing the term for bonds conversion can't be established after the date of bonds maturity. *Point 5.3 of the Regulation nr.72/1-1997and the best international practice.*

13. Conversion of bonds includes the following main operations:

a) publishing the announcement regarding bonds conversion;
b) executing the list (s) of bondholders with the right to conversion;
c) transmission by the issuer of applications on bonds conversion;
c) entering into the register of shareholders of shares in which the bonds were converted and, upon case, of former holders of bonds converted into shares;
d) erasure from the register of bondholders converted in bonds and their excluding from the circuit and, upon case, erasure of former bondholders from the register of bondholders;
f) organizing the conversion if the coefficient of conversion is a fractionated one;
g) payment of interest on bonds being in the process of conversion;
h) submitting the report on the results of bonds conversion;
i) increasing the statutory capital of the issuer and state registration of this increase. *Art.218 of the Търговски закон, Bulgaria.*

14. The announcement regarding conversion of bonds in shares should include the information provided in point 3. The announcement shall be published in the same mass media edition where the prospectus of bonds public offer was published.

15. The announcement regarding conversion of bonds and the report on the results of conversion shall be registered by the National Commission. *art.31 para nr.(2) of the Law nr.199/1998 on the securities market.*

16. In the list of persons with the right to bonds' conversion are included all persons holding convertible bonds on the date of list (s) execution.

17. The request regarding bonds' conversion shall have attached the agreement (permission) of the competent state body if the holder of bonds, after their conversion, will become the owner of an essential package of shares with voting rights, which holding requires the agreement (permission) provided by law. *Art.18 para (2) of the Law nr.1103/2000 on competition protection; art.10 para (1) letter g), art.15 para(1) and other of the Law nr.550/1995.*

18. The registration of shares on the name of former bondholder shall be done not later than during 5 working days from the date of receiving the request on bonds' conversion.

19. The person, who directly or indirectly, individually or together with his/her affiliates, bought an important package of shares with voting rights of the issuer, is

obligated to comply with the requirements provided by art. 84 para (4) and para (5) of the Law on stock companies nr.1134/11997.

20. Erasure, from the register of bondholders, of bonds converted in shares, is not permitted before entering in the register of shareholders of former holders of converted bonds.

21. The number of shares in which bonds were converted can't be bigger than the total number of shares of the corresponding additional issue and treasury shares. *Results from pct. 5.2 of the Regulation nr. 72/1-1997.*

22. If the conversion coefficient of bonds is a fractionated one, the bondholder has the right to redemption, against monetary recourses, of a fraction of the share or to procurement of the remaining part of the share, unless the prospectus of convertible bonds public offer provides usage of only one of these options.

23. Redemption or procurement of one part of the relevant share is performed pursuant to the exchange price of shares. *Best practice.*

24. The issuer is obligated to pay to the holder of converted bonds the interest calculated until the day foregoing to the day when the relevant shares were entered on the name former holder of converted bonds. The term of interest payment shall not be greater than 10 days from the time of relevant shares registration, unless a smaller term was indicated in the public offer of convertible bonds prospectus.

25. During 15 days after expiration of conversion period, the issuer is obligated to present to the National Commission a report regarding the results of conversion of bonds into shares. The report shall include the following data:

a) type, class, ISIN, nominal value and total number of bonds that were converted in shares;
b) type, class, nominal value and total number of shares that were transformed in convertible bonds (with ISIN), including total number of shares of additional issue;
c) conversion price and conversion coefficient;
d) conditions and manner of determining the modified price of shares conversion and modified conversion coefficient, if such modifications are appropriate;
e) date (s) of execution of lists of bondholders who had the right to convert them;
f) terms of beginning and end of the period when bondholders converted the bonds. *art.31 paar (2) of the Law nr.199/1998*

25. After finalizing the conversion of bonds in shares of additional issue, amendments are introduced in Bylaws of the issuer, under the procedure established by law, reflecting the increase of the number of placed shares and the statutory capital. Point 30 of the Regulation nr.76/5-1997.

26. If the issuer refuses or avoids conversion of relevant bonds, the respective bondholders have the right to request, under the procedure established by law, enforced conversion of bonds or their anticipated redemption.

III. ISSUERS AND STAGES OF BONDS ISSUING

3.1. Requirements to Issuers

1. The corporate bonds can be issued only by joint stock companies which, on the date of registration of public offer prospectus of bonds, meet the following requirements:

a) statutory capital of the company is fully paid off; *reference to the art.43 para (5) of the Law* nr.1134/1997

b) net assets value (own equity) of the company is not lower than statutory capital of the issuer; *reference to art. 39 para (7^1) of the Law nr.1134/1997*

c) total nominal value of bonds in circulation and proposed for placement is not bigger than the statutory capital of the company; *art.16 para. (9) of the Law nr.1134/1997, pct.3.2 of the Regulation nr.72/1997.*

d) the company is not subject to reorganization in other legal form or dissolution or under liquidation procedures. *art.11 para (1), art.97 para. (4) of the Law nr.1134/1997; art. 84 para (1) lit.a) of the Law nr. 632/2001.*

2. Joint Stock company has the right to issue unsecured bonds if, in addition to requirements provided in point 1, it simultaneously meets, on the date of public offer prospectus registration, the following additional conditions:

a) value of statutory capital of the issuer is bigger than one million lei;

b) issuer is in business during at least 3 years and during the last 2 years, obtained net profit; in case of commercial banks – operated during at least one year and finalized it with positive financial results;

c) during preceding 3 years before adopting the decision to issue, it fully complied with the provisions of the law regarding information disclosure and rights of securities holders;

d) issuer has not committed cases of non execution or non compliance with execution of obligations to holders of previously placed bonds. *art.18^1 para (2) of the Law nr.199/1998.*

3. The amount of unsecured bonds issue shall not be bigger than the net assets (shareholder's equity) of the issuer, indicated in the balance sheet on the last reporting date, which directly follows after the date of registration of bonds public offer prospectus.

4. Requirements provided by letter c) and d) of point 2 shall be considered fulfilled if during 3 years before taking the decision to issue bonds:

a) issuer and affiliated persons were not under investigation, in conformity with the procedure established by law, in connection with violation of provisions of the Law nr.1134/1997 on stock companies and present Regulation, in the part regarding information disclosure and observance of securities' holders rights, including rights of bondholders;

b) reports of issuer regarding previously placed bonds redemption don't include information regarding violation of provisions indicated in letter a) of present point;

c) decisions of the National Commission don't include information regarding violation of provisions indicated in letter a) of present point;

5. The issuer will additionally indicate in the prospectus of public offering of unsecured bonds the following:

a) information confirming observance of requirements to the issuer of unsecured bonds;

b) list and balance value of the issuer's pledged, sequestered or otherwise owed goods, as well as the share of these goods in total value of issuer's assets.

6. In the prospectus of public offer of unsecured bonds, the issuer has the right to assume additional obligations that will ensure the execution of pecuniary obligations on bonds, including the obligation:

a) not to put under pledge, fidejusson or any other form indebtedness on a higher level than that indicated in the prospectus;

b) to maintain on a certain level the proportion between the borrowed capital (balance of received credits and loans) and issuer's own equity;

c) not to form partnerships with commercial companies;

d) to perform regular transfers to the redemption fund of unsecured bonds;

e) to institute partial guarantees on unsecured bonds (own goods pledge, third party pledge, bank guarantee, fidejusson and/or insurance policy).

7. The issuer is obligated to include in the report on the results of placement of unsecured bonds the information regarding compliance/non compliance with the requirements indicated in point 1 and 2 during the period of bonds placement. In case of violation of mentioned requirements during the period of bonds placement, the National Commission might refuse to register the report and qualifies the issue as non valid. *art. 18 para (5) of the Law nr.199/1998.*

8. If during circulation of unsecured bonds, the issuer reduced the statutory capital lower than the level established in letter a) of point 2, the bondholders have the right to request from the issuer to constitute guarantees for execution of pecuniary obligations on bonds (pledge own goods, pledge third parties goods, provide bank guarantee, fidejusson and/or insurance policy) or redeem the bonds before maturity.

3.2. Stages of Bonds Issue

1. The public issue of bonds involves the following stages:

1) adoption by the issuer of decision regarding bonds issue;

2) drafting by issuer and underwriter the contract on rendering underwriting services – in case of underwriter usage;

3) preparing and approval by the issuer of the bonds public offering prospectus;

4) executing by issuer and independent registrar of the contract or preliminary contract regarding keeping the register of bondholders or introducing of amendments in the contract regarding keeping the register of bondholders, previously executed;

5) preparing and demonstrating the object of pledge and/or third party guarantees;

6) obtaining the authorization of the National Bank of Moldova – if the issuers are financial institutions;

7) registration by the National Commission of public offer prospectus of bonds attributing to the bond issue the number of state registration (ISIN);

8) opening by the issuer of a temporary bank account in national currency for collecting funds obtained from the process of bonds placement;

9) multiplying the public offer prospectus, as well as printing the certificates of bonds or their samples – in case of issue of materialized bonds; *art.14 para.*

10) disclosure under the established procedure of information included in the bonds public offer prospectus;

11) public placement of bonds;

12) adoption by issuer of report on the results of issue and qualifying the issue as performed or non performed;

13) execution of agreement regarding pledge or concluding a pledge contract and/or constitution of third parties guarantees upon the results of bonds issue, as well as registration of pledge;

14) registration by the National Commission of the results of the issue;

15) closing the temporary bank account and transfer of funds from this account to the current account of the issuer (if the National Commission registered the report on the results of the public issue of bonds) or reimbursement of funds to subscribers of bonds;

16) entering in the register of bondholders of data on the subscribers of bonds and issue to the holders of bonds of extracts from the register and certificates of bonds (in case of materialized bonds) or extracts from the register (in case of non materialized bonds). *art.9 para (2), art.14 para. (2) lit f) and h), art.18[1] para (2) – (6) of the Law nr.199/1998, art.26[1] of the Law nr.449/2001.*

2. The public offer of bonds can be performed by the underwriter in the name of issuer or its name.

3. In case of public offer of bonds, only an independent registrar can keep the register of bondholders.

4. When the prospectus of bonds public issue is being prepared, the issuer has the right to conclude a pre-contract with the independent registrar regarding the register of bondholders. The pre-contract shall be succeeded by a contract on keeping the register of bondholders, signed after the issuer decided to qualify the issue as a performed one. *art.679 para (3) of the Civil Code.*

5. The issuer has the right to begin the public offer of bonds on the primary market only after the National Commission has registered the prospectus of public offer of bonds. *art.17 para (1) of the Law nr.199/1998.*

6. The issuer has the right to request, only after the registration by the National Commission of the report on the results of placement of bonds:

a) to close the temporary bank account, where the funds obtained during the process of bonds placement were collected;

b) to enter in the register of bondholders the data regarding bonds underwriters. *art.9 para (2) lit.l) and m) of the Law nr.199/1998*

IV. Decision on Issue and Prospectus of Bonds Public Offer

4.1. Procedure of Approval of Decision on Bonds Issue

1. For each issue of bonds, the issuer adopts a separate decision. *art.10 para (1) of the Law nr.1134/1997.*

2. The decision on issue bonds convertible in shares should be approved by the general meeting of shareholders.

3. The decision on issue of non convertible bonds in shares should be approved by the council of the company or other authorized body of the issuer.

4. The authorized body of the issuer is entitled to adopt the decision regarding issue of bonds only if the joint stock company – issuer corresponds to all the requirements provided by law for issuers.

5. The decision on issue of convertible bonds should provide for the procedure and period of conversion of bonds in shares of the issuer, as well as the note regarding the right of issuer to issue shares during the period of bonds circulation.

6. The public offer prospectus will be approved by the council of the company or other body authorized by the Statute of the company.

4.2. Requirements to the Decision regarding Bonds Issue

1. The decision regarding bonds issue shall include:

a) identification data of the issuer;

b) date and number of registration;

c) date of adoption of decision on bonds issue;

d) name of management body of the issuer, which adopted the decision on bonds issue;

e) type of bonds issue (corporate bonds);

f) class of bonds;

g) number of order of respective bonds issue of respective class;

h) nominal value of bonds, number of bonds of this issue and sum of issue;

i) number and total sum of all placed issues (including this issue) on the initial date of circulation of bonds of this issue;

j) form of bonds, and in case of materialized bonds – description or sample of certificates of bonds;

k) description of rights conferred by the respective class of bond and other distinctive characteristics, including description of interest rate on bonds and method of interest determining, as well as description of procedure and terms of interest payment;

l) data on the procedure of issued bonds cover (if secured bonds are issued) or data on complying with the exigencies provided by the Law on securities market nr. 199/1998 (if unsecured bonds and bonds non convertible in shares are issued);

m) procedure of bonds issue (public offer);

n) initial and final terms of the respective issue of bonds placement;

o) form of bonds payment (monetary funds);

p) term of circulation of bonds issue and each series of the issue;

q) procedure of acquisition and redemption of bonds on the secondary market, until the expiration of the term of circulation;

r) signature of the manager of the issuer, name and position, issuer's stamp. *art.10 para (2)-(2[1]) of the Law nr.1134/1997.*

2. The decision regarding issue of bonds shall be submitted to the National Commission in the form of minutes of the general meeting of shareholders or meeting of another body, which adopted the decision, in which compliance with requirements indicated in point 1 of compartment 3.1 should be pointed out. *Point 2.1 letter e) of the NCFM Regulation 25-1/1995*

3. The issuer is not entitled to modify the decision regarding bonds issue affecting rights conferred to a bond, established by the respective decision. *Art.10 para (3) of the Law nr. 1134/1997.*

4.3 Requirements to the Bonds Public Offer Prospectus

1. The prospectus of bonds' public issue should include obligatory information stipulated in art. 13 of the Law on the securities market nr.199/1998.

2. Recommended content of the prospectus of bonds public issue is included in the Annex to present Regulation.

3. The prospectus of public offer of bonds shall be in printed form, available for the public on the legal address of the issuer, in places of bonds sale, as well as sent without payment upon request of any potential buyer of bonds by the issuer or its underwriter. *Regulation on the procedure and state registration of corporate bonds Nr.72/1 dated 27.11.97 p. 8.2.*

4. It is considered that the prospectus is made public if besides availability on the legal address of the issuer and places of bonds sale, it is published in one of the following forms:

a) in one or several national periodic editions;
b) on the web page of the issuer and underwriter (if any);
c) on the web page of the of the Moldovan Stock Exchange;
d) on the web page of the National Commission.

Directive CE 2003/71/CE dated 04.11.2003 art.14, Regulation on the procedure of issue and state registration of corporate bonds Nr.72/1 dated 27.11.97 p. 8.7.

5. The prospectus of public offer of bonds can be used by the issuer for placement of bonds during one year from the date of adoption of decision on bonds issue, upon condition of prospectus update pursuant to art. 16 of the Law on securities market nr.199/1998. *Law on securities market Nr.199/1998, art.9.(5)*

6. The prospectus of public offer of bonds is valid during the whole period of placement and circulation of bonds in the part referring to the conditions of bonds issue.

7. If after registration by the National Commission of public offer prospectus of bonds, some errors or uncertainties were revealed and/or some events affecting the issue occurred during the subscription period, the issuer is obligated to introduce the corresponding changes and amendments in a supplement to the prospectus. The supplement to the prospectus is registered and published under the same procedure as the prospectus during a term not exceeding seven calendar days. In case of necessity the amendments can be included in the resume of the prospectus. *Law on securities market Nr.199/1998, art.16.*

8. The investor, which subscribed to bonds before publication of the supplement to the prospectus of public bonds, has the right to retrieve its subscription. In this case the issuer is obligated during five working days from the date of submission by the investor of the respective request to reimburse his/her contribution and the interest accumulated as a result using subscriber's resources. *Law on securities market Nr.199/1998, art.16.*

4.4. Commercial Representative

1. The commercial representative is appointed by the issuer of mortgage bonds independently and it permanently represents the interests of all bondholders in their names. *[best international practice, Law of Romania 32/2006, art. 19 Law of Kazahkstan 461/2003]*

2. The commercial representative is appointed by the decision of issuer's council or other authorized body of the issuer. The issuer has also the right to stipulate in the public offering prospectus of bonds the substitute of bondholders representative. *[art. 16 (1) of the Law Romania 32/2006*

3. The subscriber to bonds shall express its agreement with its powers and candidate for the commercial representative, proposed by the issuer, by signing a subscription contract to bonds, which shall expressly include the consent.

4. The commercial representative exercises its attributions based on legislation and tripartite agreement between the commercial representative, issuer and auditor. The contract is drawn in written. *[art. 1 of the Law Kazakhstan 461/2003, art. 14 (3) of the Law of Romania 32/2006]*

5. The agreement with the commercial representative shall include the identification data of the representative, exhaustive description of his/her authorities, procedure of appointment, remuneration and responsibilities. The representation of this contract, in virtue of art. 258 para (4) of the Civil Code of the Republic of Moldova doesn't require any power of attorney.

6 The commercial representative is obligated:

a) to conclude and participate in registration of mortgage cover pledge as the nominal holder of pledge, to introduce, upon case, amendments in the pledge contract and to participate in its registration;
b) to control the fulfillment of issuer's payment obligations to bondholders;
c) to control the disclosure by issuer of information necessary to bondholders;
d) to compare the information of the auditor regarding the up to date status of the mortgage cover with the minimum general system requirements provided by the prospectus of public offering of bonds, as well as to inform the bondholders and National Commission on results of the checking;
e) to represent the bondholders in their relations with the issuer, National Commission, court instances and other persons and authorities;
f) to present at the request of bondholders or National Commission the paperwork and explanations in written form, related to its activity as commercial representative;
g) to inform the National Commission and bondholders regarding the end of its activity as commercial representative. *[art. 20 para. (2) pct. 6,7 of the Law of Kazakhstan 461/2003]*

7. While fulfilling its duties, the commercial representative has the right to:

a) request explanations and statements from the issuer referring to the execution of issuer's obligations with respect to bondholders if the issuer violated the provisions of the legislation and/or the prospectus of bonds public offer;
b) request from the issuer the elimination within a stipulated period of committed violations with regards to legislation and/or prospectus;
c) request the submission of extraordinary report regarding mortgage cover with the note of the auditor drawn according to the established procedure – in case of technical default or default of the issuer;
d) request the convocation of extraordinary bondholders meeting – in case of issuer's default.
e) request transmission of its mortgage cover – in case of issuer's default.
f) To take under management, to transfer under management or sell the mortgage cover – based on its own decision or the decision of the general meeting of bondholders.
g) Administrate the mortgage cover, to transfer under management of the third party or sell.

8. The commercial representative is obligated to act in the interest of all bondholders manifesting insistence and avoiding conflict of own interests with the interests of bondholders.
9. On mortgage bonds issue, the commercial representative can be a:
[similar with art. 13 (1) of the Law of Romania 32/2006 and art. 19 (2) of the Law Kazakhstan 461/2003]

a) professional participant of the securities market;
b) financial institution licensed by the National Bank of Moldova.

10. The following persons can't act as commercial representative:

a) person affiliated to the issuer; *[art. 11 (2) of the Law Romania 32/2006];*
b) issuer's auditor *[art. 11 (2) of the Law Romania 32/2006];*
c) person which previously was prosecuted for non fulfillment of commercial representative attributions and obligations; *[art. 13 (3) of the Law Romania 32/2006];*
d) issuer's official persons and its affiliated persons;
e) shareholders holding control package of the issuer and persons affiliated to it;
f) representative of shareholders.

11. The commercial representative is not entitled to require information regarding any loan included in the mortgage cover, to disclose information obtained during the process of exercising its attributions, access to which is limited under art. 7, para (2) of the Law on access of information nr.982/2000. Exceptions are cases when this information is disclosed to competent bodies according to their request, in cases established by law. *[art. 20 art. 20 (2) pct. 8 of the Law of Kazakhstan 461/2003, Law 982/2000]*
12. The commercial representative is not entitled, upon own decision, to transmit to other persons its rights and attributions, except cases when it is substituted. *[art. 14 para.(2) din Law of Romania 32/2006]*
13. If the commercial representative is non-adequately fulfilling its obligations, the issuer or the general meeting of bondholders has the right to cancel the contract and to appoint a new commercial representative.

4.5. Registration of Bonds Public Offer Prospectus

1. For registration of bonds public offer prospectus, the issuer is obligated to present to the National Commission the following documents: *art.14 para (2) of the Law nr.199/1998*

a) application to register the bonds public offer;

b) copies of constitution documents with all further amendments and modifications certified under the established procedure – if they haven't been presented to the National Commission; *+ pct.81.2) of the Regulation nr.76-5/1997;*

c) document certifying the state registration of the issuer;

d) minutes of issuer' authorized body which adopted the decision regarding bonds issue, attaching the respective decision in three copies;

e) prospectus of bonds public offering, in two copies; *+ pct.48 of the Regulation nr.76-5/1997*

f) samples of bonds certificates, in two copies – in case of materialized bonds;

g) authorization of the National Agency for Competition Protection in cases provided by anti – monopoly legislation and if issued bonds are subject to conversion in shares with voting rights;

h) authorization of the National Bank of Moldova, if the issuers are financial institutions;

i) agreement of the Agency for Public Property by the Ministry of Economy and Trade – if the issued bonds subject to conversion in shares with voting rights and the state hold a quote of at least 10% of the statutory capital of the issuer;

j) copy of the report made by an evaluation company on market value of pledged non monetary goods or copy of the preliminary report on constituting third parties' guarantees or copy of the report on mortgage cover situation with the note of the auditor issued upon agreed procedure – in case of secured bonds;

k) probes with respect to issuer correspondence to criteria established in the Law on securities market nr.199/1998 – in case of unsecured bonds;

l) copy on underwriting services' contract – in case of rendering services under the principle of firm responsibility; *+ art.9 para (2) lit.a[1] of the Law nr.199/1998, pct.7.4 lit. g) of the Regulation nr.72/1 -1997*

m) copy of contract/preliminary contract on keeping the register, signed with the independent registrar;

n) model-contract on subscription to bonds, approved by the authorized body of the issuer; *art.18[1] para (13)-(16) of the Law nr.199/1998*

o) copy of banking document confirming opening by issuer of the temporary account in national currency for accumulating funds obtained as a result of bonds placement; *+ art.9 para.(2) lit.e) of the Law nr.199/1998, pct.44 lit.i) of the Regulation nr.76-5/1997*

p) copy of the contract signed with the representative of bondholders and auditor – in case of mortgage bonds issue;

q) copies of payment orders regarding payment of taxes and fees related with the registration of public offer of bonds.

2. The report on market evaluation of non monetary goods that are pledged for guaranteeing the execution of pecuniary obligations referring to secured bonds is executed by the evaluation company, not affiliated to the issuer.

3. The report on the situation with mortgage cover is executed by issuer under the established procedure and is confirmed by a note of the auditor drawn after the agreed procedure.

4. The documents for registration of public offer of bonds shall be submitted to the National Commission not later than 3 months before expiration of the annual term during which the prospectus of the public offer of bonds can be used for bonds placement. *Results from art.9 para.(5), art.14 para.(3) and art.17 para (2) of the Law nr.199/1998, as well as point 4 of present compartment.*

5. The National Commission registers or rejects the prospectus of public offer of bonds during a term of at least 30 days from the date of receipt of all documents indicated in point 1. *art.14 para.(3) of the Law nr.199/1998*

6. On registration of public bonds offer, to each issue and series of bonds is attributed a single number ISIN, under the procedure established by the National Commission. *Art.9 para.(4) of the Law nr.199/1998*

7. After introducing the information regarding bonds issue in the state Register of securities, the National Commission issue to issuer the extract from the State Register of securities and returns a copy of the prospectus of public offer of bonds with the note "REGISTERED", confirmed by the stamp of the National Commission indicating the state registration number and date of respective decision adoption. *pct.48 and pct.84 of the Regulation nr.76-5/1997.*

8. State registration of bonds public issue is not considered a guarantee for these bonds.

9. Reasons for rejecting the public offer of bonds might be the following:

a) non correspondence of information submitted in the documents or of the procedure of their adoption to the provisions of the law;
b) existence in submitted documents of information demonstrating that the conditions of issue and circulation of bonds are in contradiction with the provisions of the law;
c) including in the prospectus of public offer of bonds, in the decision regarding bonds issue or other documents, based on which the registration of bonds is performed, of false or erroneous information;
d) submission of documents for state registration of public bonds offer later than the term indicated in point 2.

10. Rejection of the application for state registration of public bonds offer on reasons of issue' irrationality is not admitted.

11. Decision regarding the refusal to register the public bonds offer with justification of the refusal is sent out to the issuer by the National Commission during 5 days from the date of this decision entering into force.

12. Decision regarding the refusal to register the public bonds offer can be appealed in court.

V. Placement of Bonds

5.1. Procedure of Bonds Placement

1. The placement of bonds is performed in conformity with the Law regarding the securities market nr.199/1998, Law on stock companies nr.1134/1997, Civil Code of the Republic Moldova and present Regulation.

2. The placement of bonds can start not earlier than 15 days after all potential investors have been provided access to information included in the prospectus of public offer. *[art. 17 para (2) of the Law on securities market]*

3. The placement of bonds shall be made based on bonds' subscription contracts, signed between the issuer and the subscribers to bonds (further on – *contract on subscription*). *[art.18/1 para (13) of the Law on securities market]*

4. The subscription contract will include detailed information regarding rights and obligations of both subscribers to bonds and their bondholders, as well as the direct agreement with the commercial representative, including its authorities and candidature, proposed by the issuer under the established procedure.

4. The subscription contract is valid from the moment of its signature and till the issue by bondholders of the extract from the register, in case of non materialized nominative bonds or extract from the certificate of bonds, in case of materialized bonds.

6. The subscription contract can be canceled or renounced during its term of validity:

a) on the initiative of the issuer – in case of appearance of events specified in the public offer prospectus;

b) on the initiative of subscriber to bonds - in case of events affecting the financial and economic activity of the issuer, under the provisions of art. 54 para. (6) of the Law on the securities market nr.188/1998;

c) when the National Commission or court instance has qualified this issue as non valid;

d) in other cases stipulated by law or subscription contract.

7. Payment for bonds during the process of their placement will be made only against monetary resources and in single payments. *[art.163 paar (5) of the Civil Code]*

8. Making payments for subscribed bonds is made by the subscriber in the term and manner provided by the subscription contract.

9. Monetary funds obtained during the process of bonds placement will be accumulated in a temporary account, in national currency, opened by the issuer after registration of public offer prospectus by the National Commission. *[art.9 para. (1) lit.e) of the Law on securities market.*

10. Placement of bonds can be performed by the issuer individually or through professional participant holding the license allowing it to perform underwriting activities (*further on – underwriter*) *[derives from the of the Law on securities market]*

11. Placement of bonds by underwriter shall be made by applying one of the following principles: *[art.35 para.(2) of the Law nr.199/1998]*

a) principle of all possible efforts;

b) principle of firm responsibility.

12. In conformity with the contract of underwriting services, both principles established in point 12 for placement of one class bonds can be applied indicating the proportion of bonds used according to one or the other principle;

13. The placement of bonds shall be made on a single price for bonds placement, which in conformity with the public offer prospectus, can be:

a) equal to the nominal value of bonds, or
b) smaller than the nominal value of bonds; or
c) bigger than the nominal value of bonds.

14. The placement of bonds shall be made using one of the following methods:

a) direct subscription, if placement is outside the stock exchange;

b) at the stock exchange.

15. The placement of bonds through the stock exchange, including the conditions of bonds' registration at the stock exchange is performed in conformity with the rules of the stock exchange.

16. The placement of bonds through the stock exchange, including the conditions of registration at the stock exchange shall be made at the stock exchange using the assistance of a licensed professional participant allowing to perform broker operations (further on – *broker*).

17. Additionally to the data included in the broker contract, established by the Decision of the National Commission nr.48/7 dated December 17, 2002 regarding approval of normative acts for broker/dealer activities, the brokerage contract signed by the broker and issuer shall include the information on the following:

a) procedure of bonds offer (call auction, book entry system auction);

b) date of placement opening and closing;

c) date limit for the adoption of the report on the results of issue and qualification of issue as performed or non performed;

d) date limit when the monetary resources accumulated by the broker in the account of subscribed bonds will be transferred to the issuer.

18. The placement of bonds through the stock exchange includes the

following stages:

a) concluding of brokerage contract between broker and issuer or underwriter regarding sale of bonds placed by the issuer;

b) concluding of subscription contract, through broker, between the issuer and subscriber;

c) concluding of brokerage contract between the broker and subscriber to bonds regarding purchase of bonds placed by the issuer;

d) transfer by the subscriber of monetary funds in the bank account indicated by the broker, in view of payment of subscribed bonds;

e) opening of placement period at the stock exchange (date of placement opening);

f) auction holding and/or exposure of bids for sale and buying of placed bonds;

g) opening the bids for buying and selling of placed bonds and/or receipt of results of bonds placement auction;

h) closing of placement period at the stock exchange (closing date of placement);

i) submission by the issuer of the report regarding opening of buying - selling bids of placed bonds and/or the results of bonds auction;

j) adoption by the issuer of the report on the results of issue and qualification of issue as performed or non performed;

k) registration by the National Commission of the report on the results of bond issue;

l) clearing and settlement at the stock exchange – if the National Commission registered the report on the results of bonds issue and the issue is qualified as performed;

m) transfer by the issuer of funds obtained as a result bonds placement - if the National Commission registered the report on the results of bonds issue and the issue is qualified as performed;

n) introducing the data on bondholders in the register, issue of certificates (in case of materialized bonds) or extracts from the register (in case of non materialized bonds) to subscribers to bonds - if the National Commission registered the report on the results of bonds issue and the issue is qualified as performed;

o) canceling the results of bids opening at the stock exchange and transfer of funds to the account of subscribers – if the issue was qualified as non performed or null.

5.2. Disclosure of Information on Bonds Placement

19. The issuer is obligated to ensure disclosure of information regarding its activity and issue of bonds pursuant to the conditions established by the Law on securities market nr.1999/1998, law on stock companies nr.1134/1997, regulation on the composition, procedure of execution, submission and publication of annual specialized reports of closed stock companies, approved by the Decision of the National Commission by Decision nr.17/6 from June 28, 2001 and present Regulation.

19. The issuer is obligated to ensure the disclosure of information regarding its activity and issue of bonds pursuant to the conditions established buy the Law on securities market, Law on stock companies, Regulation regarding content, procedure of execution, submission and publication of annual specialized reports of open type stock companies approved by Decision of the National Commission …..

20. The disclosure of information regarding issue of bonds will be made by issuer through:

a) publication of note on approval of decision on bonds issue; *[art. 54 para.(6) lit.b) of the Law on securities market]*;

b) registration of prospectus of public offer of bonds by the National Commission *[art. 9 para.(2) of the Law on securities market];*

c) publication of note on public offer of bonds and disclosure of information included in the public offer prospectus, as well as providing access to public offer prospectus to all potential investors; *[art. 54 para. (8) of the Law on securities market]; [art. 9 para. (2) lit. g), art. 13 para. (7) and art. 17 para. (2) of the Law on securities market];*

d) publication of note on amendments operated in the public offer prospectus during the period of issue and circulation of bonds *[results from art. 16 of the Law on securities market];*

e) registration of report on the results of bonds issue by the National Commission *[art. 9 para. (2) lit. j) of the Law on securities market];*

f) publication of note on the results of bonds issue and qualification of issue as performed or non performed *[art. 54 para.(6) lit. b) of the Law on securities market];*

g) publication of note on calculation of payments on the income derived from bonds *[art. 54 para. (6) lit. c) of the Law on securities market];*

h) publication of information regarding events and actions affecting the financial and economic activities of the issuer *[art. 54 of the Law on securities market];*

i) submission of information provided by law to the stock exchange – if the placement of bonds will be made through the stock exchange and/or the issued bonds are registered at the stock exchange *[art. 54 para. (10) of the Law on securities market];*

21. Additionally to disclosure activities provided in point 20, the issuer is entitled to undertake other measures for information disclosure, including individual announcement of bondholders.

22. Publication of notes and information provided by point 17 shall be made in periodic editions established by the National Commission and/or the newspaper indicated in the Bylaws of the issuer *[similar to point 1.10 of the Regulation of the NCFM 2/6 din 18.01.2001]*, and upon the discretion of the issuer – in other mass media publications.

23. The note regarding approval of decision on bonds issue is published by the issuer during the most 15 days from the date of decision approval.

24. The note regarding public offer of bonds is published during the most 7 days from the date of registration of public offer prospectus by the National Commission. *[Similar to point 2.2 of the Regulation of NCFM 2/6 from 18.01.2001], at least 15 days before the beginning of bonds placement, art. 17 para.(2) of the Law on securities market]*

25. The note on public offer of bonds will include the following information:

a) full name and legal address of the issuer;

b) bonds value and sum proposed for placement;

c) description of bonds proposed for placement (nominal value, placement value, interest rate, procedure of interest payment and redemption of bonds, period of circulation and maturity);

d) date of beginning and closing of bonds placement;

e) modality of bonds placement (direct subscription or through the stock exchange);

f) address of place (s) where the potential investors may be informed about the public offer prospectus, as well as the address and place (s) where the potential investors may subscribe to proposed bonds;

g) information on participation of underwriter and commercial representative of bonds – if any;

h) mentioning the fact that placement is made only against cash and single payments;

i) upon discretion of the issuer – other information not contravening to valid legislation.

26. In view of disclosure of information included in the public offer prospectus and provision of access to all potential investors to the public offer prospectus, the issuer:

a) will publish the public offer prospectus and annexes to it in the form of a booklet, in sufficient copies to be offered to potential investors upon latter's request;

b) will create the necessary conditions for provision of public offer prospectus to the legal address of the issuer (for the whole period of bonds circulation) and in places where the subscription to bonds will take place (during the period of subscription to bonds) *[art. 13 para.(7) of the Law on securities market]*;

c) will ensure free distribution of public offer prospectus to potential investors *[art. 13 para.(7) of the Law on securities market];*

d) will place the public offer prospectus on own web page – if there is a web site *[art. 13 para.(7) of the Law on securities market*];

e) will submit to the National Commission concurrently with submission of materials for registration of public offer prospectus, a copy of the public offer prospectus, the electronic version, placing it on the web page of the National Commission *[art. 13 para.(7) of the Law on securities market];*

f) will present to the stock exchange a copy of the public offer prospectus, the electronic version, for the web site of the stock exchange – if the placement of bonds will be made through the stock exchange *[art. 13 para.(7) of the Law on securities market];*

g) will undertake other measures, not prohibited by law, that will provide for promotion and distribution of public offer prospectus.

27. The stock exchange is obligated to publish the prospectus of public offer of bonds on its web site, if placement and circulation will be made through the stock exchange.

28. The note regarding the results of bonds issue shall be published by the issuer during the most 15 days *[art. 18 para.(4) and (5) of the Law on securities market]* from the date of registration or non registration of the report on the results of bonds issue by the National Commission.

29. If the National Commission registered the report on the results of bonds public issue, the note regarding the results of bonds issue will include the following information:

a) full name of issue;

b) reference to the decision of the National Commission which registered the report on the results of public issue of bonds;

c) value and volume of issue of bonds proposed for placement;

d) value and volume of placed issue of bonds;

e) price of bonds placement.

30. If the National Commission refuses to register the report on the results of public issue of bonds, the note on the results of bonds issue will include a message providing that funds accumulated from the subscribers will be reimbursed to them in the conditions and during the period established by the contract on subscription to bonds.

31. The note on public offer of bonds and activities related with its promotion, as well as the note on calculation and payment of bonds by the issuer, is considered advertisement publicity according to the securities market *[art. 62 para. (2) of the Law on securities market]*. The provisions of chapter 13 of the Law on securities market nr.199/1998 are correspondingly applied to these categories of information and activities of bonds public offer promotion.

5.3. Suspension and Stating the Bonds Issue as Non Performed or Null.

1. Suspension of bonds issue and stating the issue as non performed or null is performed in the conditions and under the procedure established by the Law on securities market nr.199/1998, Civil Procedural Code of the Republic of Moldova, Regulation #76-5 from December 29, 1997 of the State Commission for Securities Market regarding procedure of issue and state registration of securities, as well as the present Regulation.

2. Suspension of bonds issue and stating the issue as non performed or null can be performed only on the basis of reasons expressly indicated in legislation regarding securities and only with respect to all bonds of the respective issue. *Best international practice.*

3. The bonds issue can be suspended or declared non performed until the state registration of the report on the results of bonds placement. *Best international practice.*

4. The decision regarding suspension of bonds issue, declaring the issue as non performed can be approved by the issuer, National Commission or court. *art.31 para.(4) of the Law nr.199/1998*

5. The decision regarding renewal of issue can be approved only after eliminating the violations that conditioned the suspension of issue. Elimination of violations should be confirmed by issuer's report. In this case, the term of bonds placement, established in the public offer prospectus, is not prolonged. *art.9 para.(9) of the Law nr.199/1998; n.3.1 Regulation №45/1997 Russia*

6. Non elimination of violations that contributed to the suspension of bonds issue can be considered a reason for declaring the issue as non performed.

7. The issuer has the right to declare the issue as non performed only if the placement of bonds:

a) didn't start, upon condition that the decision of the issuer on placement of bonds will be published not later that 10 days before the beginning of bonds placement, which is indicated in the prospectus of public offer of bonds; or *International practice*

b) placed bonds were in a less volume than that indicated in the prospectus of public offer; *art.9 para.(8) of the Law nr.199/1998*

8. The reasons for recognizing the issue as non performed should be indicated in the prospectus of bonds public offer.

9. The issuer is obligated to declare the issue of bonds as non performed if not a single bond of this issue was placed. *Regulation №45/1997 Russia*

10. The National Commission is entitled to initiate, in court, an action regarding nullity of placed bonds. *art.9 para.(2) lit.l) of the Law nr.192/1998*

11. If the issue of bonds is qualified as non performed or null, the funds obtained by the issuer as a result of bonds placement are reimbursed to investors and the materialized bonds are returned to the issuer for annihilation. *art.9 para.(11) of the Law nr.199/*

12. If the issue of bonds is qualified as non performed or null, the issuer, also, reimburses to investors the non obtained income in the amount of profit obtained by the issuer as a result of using the attracted funds in the process of bonds placement. The prospectus of public offer includes stipulations that the amount of non obtained income will be calculated in conformity with art. 619 of the Civil Code of the Republic of Moldova *art.9 para.(11) of the Law nr.199/1998; amended pursuant to art..610 and art.619 of the Civil Code.*

13. The obligation to promptly inform the underwriter, independent registrar and publicity distributor regarding suspended or declared non performed or null bonds issue recur to the issuer who received the prescription or decision of the National Commission or court decision. *Point n.2.2 of the Regualtion №45/1997 Russia*

14. All the expenses related with suspension, renewal and declaring the bonds issue as non performed or null are borne by the issuer. *art.9 para.(12) of the Law nr.199/1998*

VI. Secured Bonds

6.1. Procedure of Pledge Constitution

1. Pledging of goods for guaranteeing the execution of pecuniary obligations on secured bonds is performed in conformity with the Civil Code of the Republic of Moldova, Law on pledge nr.449/2001, Law on mortgage nr.142/2008, Law on securities market nr.199/1998, as well as present Regulation.

2. Pledging of goods for guaranteeing the execution of pecuniary obligations on secured bonds is performed without pledged goods dispossess, if the prospectus of public offer of bonds doesn't provide constitution of a mortgage.

3. The pledge of goods for guaranteeing the execution of pecuniary obligations on secured bonds should be registered before the registration by the National Commission of the results of bonds issue.

4. In conformity with art.26^1 of the Law nr. 449/2001 on pledge, constitution of pledge for guaranteeing the execution of pecuniary obligations on bonds covered with non

monetary goods of the issuer and/or third party persons, besides mortgage bonds, is performed without concluding the pledge contract, based on the request of the issuer.

5. The following documents are attached to the application indicated in point 4:

a) agreement of issuer to constitute the pledge in favor of bondholders;
b) copy of state registration certificates of issuer;
c) extract from the state Register of enterprises and organizations *art.(2) of the Law nr.220/2007*
d) extract from the state Register of securities regarding registration of bonds public offer;
e) minutes of the meeting of competent body of the issuer, which approved the decision of bonds issue and recognition of issue as performed;
f) report regarding the results of bonds issue, approved by the competent body of the issuer.

6. The agreement of issuer to pledge own non monetary goods should be drawn according to the requirements provided in the pledge contract and should include information necessary to be introduced in the register, including the list of goods subject to pledge indicating their market value and sum of placed bonds.

7. The pledge of goods without dispossession should be registered in:

a) register of immovable goods – in case of mortgage;
b) register of nominative bondholders – in case of pledging nominative securities;
c) register of state securities – in case of pledging state securities;
d) register of intellectual property – in case of pledging intellectual property rights;
e) register of immovable goods pledge – in case of other mobile goods, including mortgage cover pledging. *Art.7 of the Law nr.449/2001*

8. Pledging of goods without possession is considered constituted since its registration in the respective register under the procedure established by law.

9. During the whole period of secured bonds circulation, the issuer can't eliminate the pledge upon own initiative from the register where it was registered. *art.18[1] alin .(12) of the Law nr.199/1998*

10. In case of redemption, under the established procedure, of a part of secured bonds, the issuer has the right to proportionally decrease the size of pledge presenting to the pledge registration body the decision of the National Commission regarding redemption of a part of secured bonds published in the Official Monitor of the Republic of Moldova.

11. The following may serve as a basis for canceling the pledge, registered with the purpose to execute pecuniary obligations on secured bonds:

a) decision of National Commission regarding rejection of application to register the prospectus of public offer of bonds;
b) decision of National Commission regarding exclusion of issued bonds from the state register of securities;
c) decision regarding declaring the issue of bonds as null or non valid if the placement of bonds didn't take place;

d) decision of court instance. *art.26[1] para. (6) of the Law nr.449/2001.*

6.2. Particularities of Mortgage Cover Pledge

1. Mortgage cover is formed, transmitted in pledge and maintained on a certain level in conformity with the Civil Code of the Republic of Moldova, Law nr.449/2001on pledge, Law nr.199/1998 on the securities market, Decision of the Government of the Republic of Moldova nr.849/2002 on the register of movable property pledge, present Regulation and the internal rules of the issuer.

2. The amount of bonds issue will not exceed 90% of the total value of mortgage covering. *Art.18 [1] para.(11) of the Law nr.199/1998.*

3. The bonds mortgage cover can exclusively include the following types of goods (assets) of the issuer:

a) claims for reimbursement of principal on loans and claims for payment of interest on bank loan contracts (*master pledge*);

b) government securities and bank deposits of the issuer (*substitution cover*). *Best international practice; art.5 para.(1)-(2) of the Law nr.83/2000 Bulgaria; pct.6.4.2 of the Regulation of the Central Bank of Russia from 10.03.2006;*

4. Initial mortgage cover is exclusively formed of mortgage loans. *Art.7 para.(1) of the Law nr.3480/2006 Ukraine*

5. Total current value of substitution cover should constitute not more than 20% of the total value of mortgage cover. *Best international practice; art.5 para. (2) of the Law nr.83/2000 Bulgaria; art.7 para. (3) of the Law nr.32/2006 Romania (20%); art.14 para.3 of the Law 3480/2006 Ukraine (25%);*

6. Each mortgage loan separately can be included in the composition of mortgage cover if it cumulatively meets the following criteria of selection:

a) mortgage loan should be homogeneous with other loans included in the composition of mortgage cover;

b) mortgage credit is referring, under banking legislation, to „standard" category;

c) issuer of mortgage bonds is the only pledgee of the object of pledge guaranteeing execution of obligation on mortgage credit;

d) bank loan contract or mortgage contract related to it doesn't provide for the possibility of alienation of mortgage object, without the agreement of pledgee;

e) loan is not included in other mortgage cover, is not under arrest or otherwise pledged. *Best international practice; d) p. (1) art.5 Law r.32/2006 Romania, Law of Bulgaria;*

7. Mortgage loans are considered homogeneous, if they are issued only for purchase of dwellings commercial real estate, or other homogenous objects defined in the decision regarding issue and/or in the prospectus of public offer of mortgage bonds.

8. Universality of mortgage loans included in the composition of mortgage cover should correspond to the following quantitative requirements:

a) weighted average interest rate on mortgage covered loans should not be less than the nominal interest rate on mortgage bonds;

b) weighted average term remained until reimbursement of mortgage covered loans should not be less than the remained term of circulation of mortgage bonds;

c) weighted average ratio of initial sum of mortgage covered loans as to estimate value of procured or to be procured real estate should not exceed the level established by issuer in the prospectus of public offer of mortgage bonds. *Best international practice;*

9. The issuer is entitled to establish in the decision regarding issue and/or bonds public offer prospectus, additional requirements to those established in points 6-8.

10. weighted average interest rate on mortgage covered loans ($\overline{R}d$) will be calculated according to the following formula:

$$\overline{R}d = \frac{\sum Rdi * Lri}{\sum Lri}, \text{ where:}$$

Rdi - annual interest rate of i-th loan in the mortgage cover , % per year;

Lri - balance (outstanding) of *i*–th mortgage loan, on the date of calculation, lei;

i – number of order of the loan in the mortgage cover.

11. Average term remaining until reimbursement of mortgage covered loans ($\overline{T}r$) will be calculated upon the following formula:

$$\overline{T}r = \frac{\sum Tri * Lri}{\sum Lri}, \text{ where}$$

Tri - term remaining until reimbursement of *i*– mortgage loan, on the date of calculation, month.

12. weighted average ratio ($\overline{L}tv$) of initial sum of mortgage covered loans as to estimate value of real estate procured or to be procured from this sum will be calculated according to the following formula:

$$\overline{L}tv = \frac{\sum Ltvi * Vi}{\sum Vi}, \text{ where:}$$

$Ltvi$ - ratio of initial sum of *i* – credit from the mortgage cover as to estimate value of real estate procured or to be procured from this loan,%;

Vi – initial appraisal value of i-th real estate procured or to be procured using i–th loan, lei.

13. In the calculation of total value of mortgage cover and other characteristics indicated in point 10 – 12, the loans, which on the calculation date don't correspond to requirements of point 6 are not taken into consideration.

14. The mortgage cover can guarantee execution of payment obligations of issuer only for one issue. The mortgage cover issue can be guaranteed only by one mortgage cover.

15. The mortgage cover shall be separated from other goods of the issuer by formation and maintaining by the issuer of mortgage cover register, as well as by state registration of mortgage cover in the register of movable goods' pledge.

16. The initial mortgage cover should be formed by the issuer and confirmed by the auditor, not affiliated to the auditor, until submission of the prospectus of public offer of mortgage bonds to the National Commission. *The best international practice; art. 8 para.(1) of the Law nr.3480/2006 Ukraine; art. 8 para. (3) of the Law nr.83/2000 Bulgaria; similar to art.18[1] para.(10) of the Law nr.199/1998*

17. The pledge contract on mortgage cover is concluded in written and include the following:

a) name and requisites of parties;

b) address of parties;

c) agreement of issuer (pledgor), expressed directly, to pledge mortgage cover in favor of mortgage bondholders (pledgees);

d) content of payment obligations of the issuer guaranteed by pledging mortgage cover, their maximum limit size (without interest and other expenses), as well as terms of these obligations honoring;

e) type of mortgage subject matter which is covering the execution by borrowers of their payment obligations on loans included in mortgage cover;

f) description of mortgage cover subject to pledge;

g) procedure of maintenance of mortgage cover on a certain level;

h) note regarding prohibition to further pledge the mortgage cover. *Similar with art. 13 of the Law nr.449/2001.*

18. Description of mortgage cover will include:

a) total value of mortgage cover (total summary outstanding balance);

b) number of mortgage loans included in the pool;

c) general system characteristics in numeric values;

d) purpose of mortgage loans pursuant to the credits (residential loans, commercial and other);

e) the limits of changes in the level of interest rates of the mortgage loans included in the mortgage cover, periodicity of interest and maturities payment.

19. The issuer is entitled to include in the description of mortgage cover the conditions of pre-term reimbursement of mortgage cover loans, the geographic distribution of mortgage objects and other information.

20. The public offer prospectus of mortgage bonds should additionally include at least the following data:

a) information indicated in sub-points d) – h) of point 17;

b) minimal requirements to mortgage cover according to point 6-8;

21. The mortgage cover pledge should be registered in the register of moveable property pledges before registering the report on results of mortgage bonds issue. *Best international practice; art. 8 para. (1) of the Law nr.3480/2006 Ukraine;*

22. Pursuant to part (1) para. 24 of the Law on pledge 449/2001 for concluding the pledge contract and registering the mortgage cover pledge, the individualization of mortgage loans and other integral parts of the pool is not necessary.

23. The composition and procedure of mortgage cover register is established by the internal regulation of the issuer in conformity with present Regulation.

24. The register of mortgage cover should include the following:

a) General information regarding the register of mortgage cover (open date, responsible person, list of persons allowed to access the register, the number of pages);

b) general data on mortgage cover;

c) Number and date of concluding the contract on each mortgage loan, first name and last name of the borrower, initial loan amount, the ratio of initial loan amount to appraisal value of the pledge(LTV), mortgage loan interest rate, term and destination of the loan.

25. The bank loan contracts and mortgage contracts should be kept together indoors.

26. The issuer submits to the commercial representative reports regarding the status of mortgage cover according to point 18, under the conditions provided by public offering prospectus of bonds, but not more seldom than once a year.

27. The mortgage cover is maintained at the required level during the whole period of mortgage bonds circulation.

28. The issuer is entitled and obligated to perform replacement of mortgage cover loan only if the loan ceased to be a „standard", was redeemed in due time or before maturity, or in case of default. The replacement is performed based on minutes with indication of reason of replacement.

29. The issuer is obligated to add new mortgage loans to the mortgage cover if the requirements regarding total value and other general characteristics of mortgage cover, provided by public offer prospectus of mortgage bonds, in conformity with points 6-8, are not fulfilled;

30. The substitution of mortgage loans by securities and/or bank deposits of the issuer or additions to the cover of nominated assets is permitted only in cases when the following conditions are met simultaneously:

a) this possibility is expressly provided by the public offering prospectus of mortgage bonds;

b) issuer has no loans corresponding to the requirements of point 6, that are not included in the cover;

c) assets of additional cover are not pledged, arrested or otherwise indebted;

d) maximum quote of said assets in the total value of mortgage cover provided by point 6 is not exceeded. *Best international practice; art.7 of the Law 32/2006 Romania.*

31. Replacement and change of mortgage cover is reflected in mortgage cover register of movable goods pledge if the minimum requirements to the cover indicated in the prospectus of public offer of bonds in conformity with points 6 -8 are respected.

32. The report regarding the status of mortgage cover should include the numeric value of general requirements for mortgage cover compared with the values stated in the prospectus of public offer of bonds as of the date of report execution, as well as the signature and date of signature.

33. The composition and procedure of agreed management assistance on mortgage cover will be established in the prospectus of mortgage bonds public offer and contract signed between the issuer, commercial representative and auditor, a person not affiliated to the issuer.

6.3. Procedure of Third Party Guarantees Constitution

General Requirements

1. Third party involved in guaranteeing of secured bonds issue is obligated to sign the decision regarding issue of bonds and prospectus of public offer of bonds. *[para.(4) art. 18[1] of the Law on securities market.]*

2. Bank guarantee, contract on fidejusson and/or insurance policy should be submitted to the National Commission together with the report on the results of secured bonds issue. *Best international practice.*

3. The issuer is obligated to present to the guarantor, fidejussor and/or insurer, upon their request, the information regarding fulfillment/non fulfillment of their obligations to bondholders. *[similar to art. 1165 CC]*

4. If the issuer fulfilled its payment obligations to bondholders, it is obligated to immediately inform the guarantor, fidejussor and/or insurer. *[similar to art. 1165 CC]*

5. The holders of bonds are entitled to request from the guarantor, fidejussor and/or insurer the respective payments on bonds, if the issuer didn't fulfill its pecuniary obligations to bondholders during 15 days from the date of expiration of these obligations execution term. *[similar to para. (25) art.18/1 of the Law on securities market and art. 1165 CC].*

7. The bondholders or their representatives should present the following documents in order that the guarantor, fidejussor and/or insurer implement their rights regarding payments on secured bonds: *[similar to art. 1250 CC]:*

a) written request indicating the total payment obligations related with insured bonds and total sum of payment obligations not executed by the issuer;

b) extract from the register confirming that the respective person is the holder of a certain number of bonds;

c) act confirming the authorities of commercial representative of bondholders – if the application is submitted by the representative.

8. Guarantor, fidejussor and /or insurer is obligated to make the payments to bondholders during the most 15 days from the date of payment request. *[art.18/1 para. (25) of the Law on securities market]*

9. Guarantor, fidejussor and /or insurer is obligated to make the payments to bondholders by a single payment. *[similar to art. 163 para. (5) CC]*

10. In case of insolvency of guarantor, and /or canceling of fidejusson contract and/or canceling of insurance contract before full redemption of bonds, the issuer is obligated:

a) to undertake necessary measures for substitution of the guarantee procedure during at least 15 working days from the date of guarantor insolvency and /or canceling of fidejusson contract and/or canceling of insurance contract *[art. 18/1 para.(5) of the Law on securities market];*

b) to take the decision regarding entering corresponding amendments in the prospectus of public offer of bonds and in case of necessity – in decision regarding bonds issue *[art. 16 para. (6) LSA, art. 10 para. (2/1) lit. a) of the Law on securities market]*, referring to the procedure of guarantee, during 45 working days from the date of stating the insolvency of guarantor, and /or canceling of fidejusson contract and/or canceling of insurance contract;

c) to submit to the National Commission the minutes of the competent body of the issuer, which approved the decisions established in pct. b), attaching the respective decisions and the prospectus of public issue of bonds, as well as the document confirming existence of bonds guarantee instrument – during 15 working days from the date of decision taking.

Bank Guarantee

11. The bank guarantee is granted by commercial bank (guarantor), based on the contract signed between the issuer and guarantor. *[art. 1246, para. (1), (2) CC]*

12. The bank guarantee is granted for execution of payment obligations of the issuer to bondholders and should correspond to the requirements of the Civil Code of the Republic of Moldova, Law # 199/1998 on the securities market and present Regulation.

13. The decision regarding granting bank guarantee is taken by the competent body of the guarantor, in conformity with the Law on stock companies and internal regulations of the guarantor. *[results from art. 83 LSC]*

14. The bank guarantee is granted by a commercial bank and should include the following information:

a) full name and requisites of the guarantor and issuer and if the issue is made with the participation of a commercial representative of secured bonds (beneficiary) – including the data of the representative;

b) indication that the issuer is the user of bank guarantee;

c) brief description of secured bonds issue and payment obligations of the issuer to bondholders;

d) description of sums and conditions of appearance of payment obligations of the guarantor;

e) guarantor' obligation (debt) according to which the bank guarantee is valid until execution by the issuer of all payment obligations provided by bank guarantee;

f) guarantor' obligation (debt) to make payments to bondholders during the most 15 days from the date of receipt of payment order from the bondholder;

g) full name of competent body of the guarantor, which decided to grant a bank guarantee and signature of authorized person;

h) bank guarantee parties' responsibilities;

i) date of bank guarantee issue.

15. Bank guarantee can't be withdrawn or canceled. *[art. 1247 CC, art. 18/1 para. (5) of the Law on securities market]*.

16. The obligations of the guarantor to secured bonds holders are redeemed as a consequence of: *[art. 1254 CC]:*

a) complete payment of sums provided by bank guarantee;

b) complete redemption by issuer of secured bonds;

c) bondholder or its representative refuses to use the bank guarantee and written confirmation of the guarantor regarding bondholders' refusal.

Fidejusson

17. The fidejusson contract provides for that third party (fidejusor) assumes the obligation to secured bondholders to execute, integrally or partially, the payment obligations of the issuer to bondholders. *[art. 1146 para. (1) CC]*

18. The fidejusson contract should correspond to the requirements of the Civil Code of the Republic of Moldova, Law 199/1998 on the securities market and present Regulation.

19. The fidejussor can be a legal person which during the term of fidejusson contract corresponds to the requirements established in art. 18^1para. (6) of the Law 199/1998 on the securities market

20. The fidejusson contract is concluded in written form *[art. 1147 CC]* based on the decision of competent bodies of the issuer and fidejussor and should include the following information:

a) full name and requisites of fidejussor and issuer if the issue is performed with participation of a commercial representative, and the commercial representative of secured bonds;

b) information confirming correspondence of fidejussor to the requirements established in art. 18^1 para. (6) of the Law 199/1998 on the securities market;

c) brief description of secured bonds issue and payment obligations of the issuer to bondholders;

d) description of composition, sum and conditions of appearance of payments obligations of fidejussor to bondholders;

e) obligation of fidejussor not to alienate the goods until complete execution of its obligations to bondholders, if the alienation leads to non correspondence to the requirements of art. 18^1 para. (6) of the Law 199/1998 on the securities market;

f) obligation of fidejussor not to encumber its goods with other obligations, if as a result of these encumbrance the total value of its obligations will exceed the value of net assets of the fidejussor;

g) period during which the bondholders are entitled to request from the fidejussor execution of its contractual obligations;

h) obligation of fidejussor to make payments to bondholders during not more than 15 days from the date of receipt of payment order from bondholders;

i) responsibility of contractual parties.

21. Upon request of fidejussor, the bondholders or the commercial representative, if any, are obligated to present to the fidejussor all information regarding the content and conditions of payment obligations of the issuer to bondholders, as well as on the stage of their execution. *[art.1155 din CC]*

22. The fidejusson ceases in the following cases:

a) complete redemption of payment obligations of the issuer to bondholders *[art. 1167 para. (1) CC];*

b) remittance of payment obligations regarding issuer's obligations to another person, if the fidejussor didn't agree to provide execution of these obligations by the respective person; *[art. 1167 para. (3) CC];*

c) expiration of the term of fidejusson; *[art. 1170 para. (1) CC];*

d) bondholder didn't sue the fidejussor during one year from the expiration of the term of guaranteed obligation. *[art. 1170 para. (2) CC]*

Insurance policy

23. The insurance policy against the risk of non execution of payment obligations on secured bonds is granted based on the contract of goods insurance, signed in conformity with the Civil Code of the Republic of Moldova and Law 407/2006 on insurance.

24. The insurance contract against the risk of non execution of payment obligations on mortgage bonds can be signed only by the insurer, which license expressly provides for this type of insurance of goods.

25. The insurance contract against the risk of non execution of payment obligations on secured bonds is concluded in written, based on the decision of competent organs of the issuer and fidejussor and should include the following information: *[art.13 of the Law №407/2006]*:

a) full name and requisites of the insurer and issuer and if the issue of bonds is performed with participation of a commercial representative, the requisites of the commercial representative of secured bonds (beneficiaries);

b) confirmation of the fact that the insurer corresponds to the requirements established in points 21 of the present Regulation – if the insurance policy is issued for guaranteeing the mortgage bonds issue;

c) description of insured object – brief description of secured bonds issue and payment obligations of the issuer to bondholders;

d) description of insured risks – composition of payment obligations of the issuer guaranteed by insurer and risk factors;

e) size of insured sum – value of issuer payment obligations to bondholders, insured by the insurer;

f) size of insurance premium, place and terms of payment;

g) modality of contract amendment and termination;

h) conditions of insurance claims payment;

i) rights and obligations of parties;

j) accountability of contractual parties;

k) disputes settlement jurisdiction.

26. The insurance contract against the risk of non execution of payment obligations on secured bonds ceases in the following cases: *[art.18 of the Law №407/2006]*:

a) agreement of contractual parties regarding contract termination;

b) non payment, complete or partial, of the insurance premium in due term;

c) expiration of the term of contract validity;

d) fulfillment by the insurer of its contractual obligations;

e) redemption of placed bonds before term;

f) other cases provided by the legislation.

VII. Registration and Canceling of the Results of Issue

7.1. Registration of Bonds Issue Results

1. The issuer submits to the National Commission, during 15 days from the date of closing of bonds placement, the following documents: *art.18 para. (1) of the Law nr.199/1998*

a) application to register the results of bonds issue;

b) minutes, the original, of the authorized organ of the issuer which approved the decision regarding the results of bonds issue, qualified the issue as performed or non perfromed and, upon case, approved the list of subscribers to bonds; ;*+ art.9 para.(2) lit.i) of the Law nr.199/1998*

c) original of the extract from the state Register of securities regarding registration of public offer;

d) copy of the note regarding information on public placement of bonds;

e) report on the results of bonds issue, approved by the management of the issuer – in 2 copies;

f) confirmation of bank institution regarding deposit by subscribers of funds for the payment of bonds;

g) list of subscribers to bonds, approved by the authorized organ of the issuer, including data necessary for opening of personal bank accounts in the register of bondholders – in 3 copies;

h) note of the National Bank regarding approval of bonds issue reuslts – for commercial banks;

i) issuer agreement or contract confirming insurance of bonds, which upon necessity, are registered under the establsihed procedure, in case of secured bonds, if the respective preliminary contracts were submitted at the registration of public offer;

j) agreement of the issuer or pledge contract of non monetary goods, registered upon established procedure, and/or the contract regarding cosntitution of third parties guarantee, and in case of registration in the Register of pledge of mobile goods – the notary legalized copy of confirmation of mortgage cover pledge registration or other goods in the indicated register;

k) copy of the contract on keeping the register of mortgage bonds bondholders - if the respective preliminary contract was submitted at the registration of public offer of bonds;

l) copies of payment orders regarding payment of fees and taxes on registration of the report.

2. The report regarding the results of bonds issue shall include: *art.18 para.(2) of the Law nr.199/1998*

a) data on the authorized organ of the issuer which approved the report and qualified the issue as performed or non performed; *+ art.9 para.(2) lit.i) of the Law nr.199/1998*

b) characteristics of the class of bonds indicating the number of state registration of bonds (ISIN); *+ art.9 para.(2) lit.d) of the Law nr.199/1998 and pct.48 of the Regulation nr.76-5/1997*

c) terms when the subscription of to bonds was performed;

d) total number of subscribed bonds in comparison with the number of bonds announced for placement;

e) volume of subscribed bonds in comparison with the number of bonds announced for placement;

f) sums of monetary funds paid by subscribers for subscribed bonds in comparison with the volume of subscribed bonds issue.

3. The list of subscribers to bonds shall include the data necessary for opening of personal account of each bondholder in the register of bondholders:

a) identification data for subscribers;

b) number of subscribed bonds;

c) sum of paid monetary funds;

d) date of subscription to bonds and number of subscription contract; *Art.18 para.(2) lit.g) of the Law nr.199/1998.*

4. The list of subscribers to bonds is presented to the National Commission in 3 copies, if the issue of bonds was qualified by issuer as a performed one.

5. The National Commission, during 15 days, examines the report on the results of bonds issue and approves the decision regarding registration of the report or rejection of registration.

6. After entering the information on the results of bonds issue in the state Register of securities the National Commission:

a) returns to the issuer a copy of the report with the note "REGISTERED" confirmed by the seal of the National Commission including the number and date of the approval of the respective decision; *Similar to point 48 of the Regulation nr.76-5/1997*

b) issue the extract from the State register of securities regarding registration of results of bonds issue.

6. If there are violations during the process of bonds issue, which was qualified by the issuer as performed, the National Commission, based on a justified decision, can reject the registration of bonds issue and qualifies the issue as null.

7. Issue of documents indicated in pct.6 -7 is performed not later than on the day following the working day after the date when the respective decision was taken by the National Commission.

8. The National Commission publishes its decision regarding registration of bonds issue or qualification of issue as non performed or null, during 15 days from the date of adoption of this decision.

10. The issuer includes in its annual report and presents to the National Commission the report under Form EM-6 "Information on securities, issued and/or redeemed (purchased) during the reporting year", executed pursuant to the Regulation regarding content, manner of execution, submission and publication of specialized reports of open type stock companies, approved by the National Commission by Decision nr.17/6 dated June 28, 2001.

7.5. Canceling the Issue of Bonds

1. Canceling of bonds issue is performed in the conditions and under the procedure established by Law nr.199/1998 regarding the securities market, present Regulation and prospectus of public offer of bonds.

2. The issue of placed bonds can be declared null (canceled) due to major violations of the legislation, revealed after the state registration of bonds issue.

3. Canceling of bonds issue is performed in conformity with the decision of the court.

4. The National Commission shall initiate the canceling of bonds issuing through court if:

a) bonds issue was qualified as null;
b) if the issuer doesn't finalize the entering of data on subscribers of bonds in the register of bonds owners and doesn't issue of extracts from the register, as well as
c) in other cases established by law.

5. The Court cancels the issue of bonds if it was declared as null or in case of issuer default.

6. The decision regarding canceling of bonds will provide for the stages, actions and terms, necessary for their further annihilation.

7. Materialized bonds subject to canceling should be returned back to the issuer for their further annihilation.

8. Canceling of bonds issue entails closing of the respective register of bondholders.

9. In case of bonds issue canceling, the National Commission makes the respective entries in the state register of securities concurrently with registration of shares in which the bonds were converted, and in other cases – after honoring other legal requests of bondholders.

9. The information regarding canceling of previously placed bonds shall be published by the National Commission during 10 days from the date when the respective entry is made in the state Register of securities.

VIII. Circulation of Bonds and Payment of Interest on Bonds

8.1. Disclosure of Information on Bonds Circulation

1. The issuer is obligated to disclose the information during the whole period of circulation of public bonds in conformity with the Law on accounting nr.113/2007, Law on securities market nr.199/1988, Law on stock companies nr.1134/1997, Regulation regarding composition, manner of execution, submission and publication of annual specialized reports of open stock companies, approved by the National Commission #17/6 on June 28, 2001 and present Regulation.

2. The issuer during 10 days after publication of the publicity announcement is obligated to submit to the National Commission a copy of it. *Reference to art.61 para. (7) of the Law nr199/1998.*

3. The issuer is obligated during the whole period of bonds circulation to place on its website the annual and semiannual financial report. *Reference to art.29 (1) of the Law on accounting nr.113/2007*

4. The financial semiannual report is published on issuer's website during 30 days after the reporting semester and the annual financial report – during 120 days after the reporting year. It is permitted not to publish the financial report for the reporting period if all placed bonds have been already redeemed. *Reference to art.38 para.(4) lit.a) –b) of the Law on accounting nr.113/2007*

5. The bondholder has access to information of the issuer according to the procedure and in terms established by art.92 of the Law on stock companies nr.1134/2007.

8.2. Trading of Bonds

1. Transmission and registration of property rights on bonds (bonds trading) is performed pursuant to the Civil Code of the Republic of Moldova, Law on securities market nr.199/1998 and Regulation regarding the procedure of keeping the register of nominative securities by registrar and nominal holder, approved by Decision nr.15/1 from March 16, 2007 of the National Commission and present Regulation.

2. Transmission of property rights on bonds is performed at the stock exchange, except cases of direct transmission of property on bonds.

3. To perform exchange operations with placed bonds, the issuers have to register the bonds at the stock exchange, under the procedure established by the exchange. *[art. 48 para. (2) of the Law on securities market]*.

4. Direct transfer of property on bonds is admitted in the following cases: *[art. 26[1] of the Law on securities market]*

a) placement of bonds on primary market;

b) fractioning, consolidation or conversion of bonds;

c) redemption of bonds by issuer;

d) alienation or transmission of redeemed bonds by the issuer to staff and/or shareholders of the company, under the procedure established by the general meeting of shareholders;

e) depositing the totally paid bonds as contribution to the social capital of a commercial company, other than the issuer; *[+ art.16 para.(8) and art.41 para.(2) lit.b) of the Law nr.1134/1997]*

f) execution of court or arbitrage decision (voluntary execution) or of execution ordinance (enforced execution) on transmission of property rights on bonds; *[+ art.33 Of the Law nr.23/2008 on arbitrage]*

g) issuer' reorganization or liquidation;

h) legal succession or inheritance of bonds *[+ art.79 din CC]*;

i) concluding of transactions resulting from partition of goods in the form of bonds;

j) concluding of contracts on bonds donation among physical persons, as well as other free transactions, pursuant to the Civil Code of the Republic of Moldova; *[art.43 din CC]*

k) concluding of other transactions provided by law.

5. On sale of bonds on the secondary market, it is necessary to indicate the income on bonds calculated on the date of transaction (*gross price*) or if the price doesn't include the income *(net price).*

6. In case of gross price, the issuer is obligated to calculate for the new holder the total sum of income for the period of bond payment, when the transaction was performed. In case of bonds net price, the sum of income calculated for the whole payment period is divided proportionally for the period when the bond was held by previous owner and by the new one.

7. Transmission of property rights on bonds is performed by submitting the transfer order to the independent registrar (in case of bonds registration in the register of bondholders) or to the nominal holder of bonds (in case of bonds recording by nominal holder).

8. The buying –selling contract or transfer order of mortgage bonds should include the agreement of the new bondholder including the candidate of the commercial representative and its authorities.

9. The number of bonds of the issue in circulation (in the accounts of bondholders) should not be bigger than the number of bonds, registered in the state Register of securities.

8.3. Payment of Interest on Bonds

1. The decision regarding payment of income is approved by the executive body of the issuer or other competent body mentioned in the prospectus of public offer of bonds.

2. The issuer has no right to take a decision regarding payment of dividends on any shares, if due interest on bonds was not paid off. *art.48 para. (5) lit.e) of the Law nr.1134/1997*

3. The holders of bonds have the priority right, as compared with issuer' shareholders, to obtain a part of profit of the company in the form of interest on bonds.

4. The size of payments on bonds, due for the expired period, is determined by the method indicated in the prospectus of public offer of bonds and doesn't depend on the market value of bonds.

5. In the prospectus of public offer of bonds the income on bonds can be indicated in the form of a percentage proportion to the nominal value of bonds and/or determined by the floating interest rate method.

6. The floating rate on interest of bonds with coupons can be determined by using:

a) formula with variables (exchange rate of a foreign currency, quotations of certain security, price index and other), which numeric value can be changed upon the discretion of the issuer (hereinafter – *formula with variables*);

b) note that interest rate is determined by the authorized body of the issuer, upon its discretion.

7. While calculating the floating rate upon the formula with variables, it should be noted that it can include only those variables, which numeric value is published by central administration authorities or organizers of public sales.

8. The prospectus of public offer of bonds with coupon including the interest rate determined based on formula with variables should take into account the following issues:

a) formula, for interest rate specifying the variables included in it;

b) official sources of numeric values of variables depending on which the interest rate will be calculated;

c) minimal value of calculated interest rate on which reaching the bondholders will have the right to request bonds redemption, if the formula provides for unlimited decrease of interest rate.

10. While determining the size of interest rate upon the discretion of the issuer, the holders of bonds with coupons have the right to request redemption of bonds.

11. The calculation of interest on bonds starts on the day following the day when the funds, accumulated during placement of bonds, began to be used, but not later than the day following after the registration by the National Commission of the report regarding the results of placement of bonds.

12. The method of calculation the quantum of interest on one bond for a certain period of payment is calculated based on the following method:

Db = R *Vobl : 100 * T : 365 (366), where

Db – interest quantum on a bond calculated for the payment period; lei/bond;
R - nominal interest rate, percent/year;
Vobl – nominal value of bond, lei/bond;
T – term of bond circulation during payment period, days;
65 (366) - total number of days per year, days/year.
Art.10 para.(21) lit.c) of the Law nr.199/1998, NBM Regulation. Best international practice

12. While calculating the sum of interest on bonds for a month, quarter or other period of payment, smaller than one year, the coefficient of reporting the annual income to the income for the payment period, which size can't be calculated using the correlation "(30) (90) (180)/365 (366)" or the analogical formula is used.

13. The payment of interest on bonds with coupons is made in monetary form by transfer to the personal account of bondholder or in cash.

14. The income on bonds is paid off after deduction of:

a) income tax: if this income is deductible under tax law;
b) commissions for payment by transfer, if deduction of commission is directly provided in the prospectus of public offer.

15. The last day of interest payment is determined according to the procedure provided by the prospectus of public offer of bonds and can't be established later than the third working day immediately after the expired period of payment.

16. Payment of interest for the last period of payment is made simultaneously with payment of principal on bonds. It is not permitted to pay off the principal and interest by a single sum.

17. The issuer is obligated to public an announcement regarding payment of interest in the following cases when:

a) bonds with coupons are issued in materialized form;
b) payment of interest on bonds with coupon is made by transfer and in cash;
c) interest rate is floating.

18. The announcement regarding payment of interest on bonds is published not later than 16 days before payment of interest.

19. The announcement on payment of interest should indicate:

a) date of interest payment; as well as, upon case;
b) place and time of interest payment in cash;
c) size of interest floating rate;
d) numeric value of variables, which numeric values don't depend on the discretion of the issuer or the list of factors, taken into consideration by the issuer for establishing the interest rate upon its discretion;
e) name of the issuer body which approved the amount of interest floating rate for the respective payment period.

20. The persons registered in the register of bondholders at the beginning of the last working day of the respective payment period have the right to interest on bonds with coupon. Exceptions are issuers which redeemed or procured bonds are in the personal account of the issuer in the register of bondholders.

21. The list of persons, who have the right to interest on bonds, is executed by an independent registrar and is transmitted to the issuer together with the balance of bonds, as well as, upon necessity, to the payment agent. This transmission is made in conformity with the contract of keeping the register of bondholders.

22. The balance of issuer's bonds shall be executed at their issuance totally and separately for each series of bonds, if the issue includes bonds of different series. The balance is executed in such a way that the number of non redeemed bonds (in circulation) and the number of redeemed bonds (removed from circulation) is equal to the number of placed bonds, registered in the Register of state securities.

23. The payment of interest on bonds is performed by the issuer or by a payment agent.

24. Only a commercial bank can be a payment agent. The prospectus of public offer of bonds should include the full name and address of payment agent and its branches that will make the payments of interest, their telephone numbers and the date of concluding the contract on bank servicing, signed with this agent.

25. The payment agent is obligated to verify the accurateness of determining the interest floating rate upon the formula with variables.

26. The issuer or the representative of bondholders, cooperating among themselves, can initiate the replacement of the payment agent. This decision shall be registered by the National Commission and published at least three times, with the periodicity of 10 days, according to the same procedure as the prospectus of public issue of bonds.

27. The sums calculated for payment of interest and redemption of bonds, but which was not received by bondholders, shall be stored on a separate account of the issuer, destined for honoring the legal requirements of bondholders. The funds from this account can't be used by the issuer for other purposes.

28. In case of non payment or partial payment, due to issuer's fault, of interest and principal on bonds, the issuer is obligated to deposit in the account of bondholder the sum of debt and the penalty for each day of delay. The sum of penalty is calculated in conformity with the requirements of art. 619 and art.585 of the Civil Code of the Republic of Moldova based on simple percentage formula.

29. After entering the debt on bonds in deposit account of the bondholder, the risks pass to bondholders and the issuer is not obligated to pay the interest, penalty or other claims.

30. The issuer is obligated to inform the bondholders regarding depositing of debt on bonds in deposit accounts by publishing an announcement under the procedure established by the prospectus of public offer of bonds.

31. The holder of a bond, is the heir or successor of his/her rights can request the payment of non received interest on bonds under the terms established by the Civil Code of the Republic of Moldova, Law on insolvency nr.32-XV from November 14, 2001 and present regulation.

32. Upon expiration of 3 years after the bondholder found out or was supposed to find out about the deposit of debt on bonds, the creditor, if the bondholder in virtue of art. 650 of the Civil Code of the Republic of Moldova loses its right to assume the debt, the debtor has the right to request the goods even if he/she earlier disclaimed the respective right.

33. The operations regarding calculation and payment of interest on bonds is reflected in the accounting of the issuer under the manner provided by the Regulation on payment of dividends on shares and interest by stock companies of the Republic of Moldova, approved by the Ministry of Finance on August 15, 1994.

34. The issuer includes in its annual report and presents to the National Commission the report under Form EM-7 "Information on dividends and interest, on securities calculated and paid off", executed pursuant to the Regulation regarding content, manner of execution, submission and publication of annual specialized reports of open type stock companies, approved by the National Commission by Decision nr.17/6 dated June 28, 2001.

IX. Protection of Bondholders Rights in Case of Issuer's Default

9.1. General Meeting of Bondholders

1. The bondholders of an issue have the constitutional right to convene the general meetings for adopting decisions of major importance for them. *Art.40 of the Constitution of the RM; art.100 a para.(6) of the Law №114/1999 за публичното предлагане на ценни книжа (Bulgaria); art.26 of the law №3480/2006 on mortgage bonds (Ukraine; art.26 of the Law №193/2003 on mortgage bonds (Russia); art.24 of the Law nr.32/2006 on mortgage bonds (Russia);*

2. The attributions of the general meeting of bondholders include the approval of order of bondholders' action in case of issuer default or insolvency, replacement or appointment of the commercial representative, as well as other issues provided by the prospectus of public offering of bonds. *Best international practice.*

3. The general meeting of bondholders can be convened by:

a) bondholders holding more than 10% of outstanding bonds in circulation on the date of announcement of the meeting; *Art.214 para.(2) of the Law on trade №48/1999 Bulgaria*
b) commercial representative;
c) issuer;
d) National Commission.

4. In case of default, the commercial representative is obligated to announce by email, fax/phone on the first working day after default about convening the extraordinary general meeting of bondholders that should take place during three days after the default. In

the absence of commercial representative, the general meeting is convened by bondholders holding not less than 10% of bonds in circulation on the date of announcement regarding convening the meeting, if another order is not established by the general meeting of bondholders.

5.The announcement regarding convening of extraordinary general meeting of bondholders shall be published in the press edition indicated in the prospectus of public offering of bonds.

6. The National Commission has the right to decide on the extraordinary general meeting of bondholders if during the first working day after the default the Commission was not informed regarding extraordinary general meeting of bondholders holding. The decision of extraordinary general meeting of bondholders shall be sent out on the day when it was adopted to the independent registrar, which will execute it on the account of the issuer as provided by point 6.

7. The issuer has the right to convene the extraordinary general meeting of bondholders in case of necessity to replace or appoint the commercial representative.

8. Persons in managing positions of the issuer have no right to represent the bondholders at the general meeting of bondholders.

9. While determining the quorum of the general meeting the following are taken into consideration but without the right to vote;

a) bonds bought by their issuer but not redeemed;

b) bonds bought by the commercial representative or represented based on power of attorney, contract or law.

10. If there is no quorum for the general meeting of bondholders, the meeting is convened repeatedly. The general meeting of bondholders convened repeatedly, is considered valid, if persons holding more than ¼ of total bonds in circulation on the last day before the meeting participate in it.

11. Each bond offers to its bondholder a vote at the general meeting of bondholders.

12. The decision of the general meeting of bondholders is considered adopted if persons holding more than 50% of total number of bonds represented at the meeting, voted for it.

13. The general meeting of bondholders appoints the representative in case if the decision taken at the meeting needs to be implemented. The contract with the representative is signed by the bondholders appointed by the general meeting.

14. Other issues regarding convening and development of the general meeting of bondholders are regualted by Law nr.1134/1997 on stock companies applied in the corresponding manner and by prospectus of public offering of bonds.

9.2. Execution of Pledge Right

1. The execution of pledge right which covered the pecuniary obligations of the issuer is performed in conformity with the Civil Code of the Republic of Moldova, Law nr.449/2001 on pledge, present Regulation, contract and prospectus of public offer of bonds.

2. The bondholders (pledgee) are entitled to initiate the procedure of execution of pledge right only in case of:

a) non execution on maturity of pecuniary obligations guaranteed by pledge or part of it; *art.26[1] para.(7) and art.61 para.(1) of the Law №449/2001.*

b) initiation of voluntary liquidation or insolvency procedure of the issuer (pledgor); as well as

c) in other cases indicated in the law or the prospectus of public offer of bonds and pledge contract. *art.26[1] para.(7) şi art.61 para.(1) of the Law №449/2001.*

3. The bondholders of secured bonds can exercise, in conformity with art. 61 para. (2) of the Law nr. 449/2001 on pledge, one of the following pledge rights: to sell the pledged goods on their own, to sell the goods under the supervision of the court instance or to take them in possession and administer them. *art.61 para.(2) of the Law №449/2001.*

4. The pledge right liable to execution (administration and/or sale of pledge object) or the procedure of selecting this right is established by the general meeting of bondholders under the conditions of Law. *International practice, art.61 para.(2) of the Law nr.449/2001, art.24 para.(1) lit.c) and art.26 para.(3) of the Law nr.32/2006.*

5. The holders of bonds covered by pledge intending to exercise the pledge right, should notify about this the issuer and, upon case, the third holder of pledged goods, as well as to register, in the respective register, the preliminary memo sent to the issuer. The preliminary memo is signed by the commercial representative appointed in conformity with the established procedure. *art.67 para.(1, 2 şi 4) of the Law №449/2001.*

6. The issuer is obligated during the timeframe from the receipt of the preliminary memo from bondholders till transmission of mortgage cover to perform the following:

a) to execute the list of mortgage credits and, upon case, other individualized components of the mortgage cover as of the date of the preliminary memo receipt;

b) to use the funds received by it after notification exclusively for honoring the claims guaranteed by pledge in order to execute the bank credit contracts, government securities and deposits of pledgor included in mortgage cover;

c) to obtain the preliminary agreement of pledgees with respect to exclusion or replacement of each component part of the mortgage cover. *International practice.*

7. The mortgage cover will be transmitted to the commercial representative or, on its indication, to third party only in its integrity as a universality of goods. *art.36 para.(2) of the Law nr.32/2001Ro; art.24 of the Law nr.449/2001.*

8. Voluntary transmission of the pledge object into the possession of pledgees is performed by the issuer under the minutes and all documents necessary for sale of object of pledge are attached to it. *Art.69 para.(2) and art.70 of the Law nr.449/2001.*

9. If during the period indicated in the preliminary memo on pledge right execution, the issuer didn't pay the guaranteed claim or didn't transmit the object of pledge in the possession of bondholders, the pledgees are entitled to initiate the procedure of enforced execution of pledged right. *Art.26[1] para.(7) and art.74 of the Law nr.449/2001.*

10. The administration of the object of pledge transmitted in possession to pledge holders is performed by the manager of the pledge appointed based on art. 55 of the Law nr.449/2001 on pledge.

11. The holders of mortgage bonds will inform each beneficiary of mortgage credits included in the mortgage pool regarding the administration of mortgage credit and the necessity to transfer to the pledge manager all payments on the respective bank credit. *Art.26 of the Law nr.449/2001.*

12. The manager of pledge is obligated to keep the extra balance records of administered object of pledge and, upon case, to keep the register of mortgage cover. *Chapter I of Plan of accounts of financial activity of enterprises from 25.12.1997; pct.12 of Plan of accounts of accounting in banks and financial institutions of the RM from 13.01.05*

13. The bondholders will pay, from funds obtained after sale or administration of the object of pledge, first of all, the expenses necessary for the mentioned sale and/or administration. *Art.76 para. (1) of the Law nr.449/2001.*

9.3. Third Party Guarantees Execution

1. Execution of guarantees granted by third parties (bank guarantees, fidejusson and insurance policy) is performed in conformity with the Civil Code of the Republic of Moldova, Law on securities market nr.197/998, Law on insurance nr.407/2001, present Regulation and the prospectus of public offer of bonds.

2. The bondholders have the right to request from the guarantor, fidejussor and/or insurer the payment on bonds, if the issuer didn't partially or fully honored its pecuniary obligations to bondholders during 15 days from the expiration of the execution term of these obligations. *[similar to art.18/1 para. (25) of the law on securities market]*

3. The guarantor, fidejussor and/or insurer shall pay to bondholders in conformity with the conditions established in the bank guarantee, contract on fidejusson and/or insurance policy.

4. To execute its rights of guarantor, fidejussor and/or insurer on secured bonds payment, the bondholders shall submit the following documents to the latter: [*similar to art. 1250 CC]*:

a) written application, indicating total payment obligations related with the guaranteed issue of bonds and sum of payment obligations not executed by the issuer;

b) extract from the register confirming that this person is the holder of a certain number of bonds;

c) act confirming the competencies of the representative – if the request is submitted by the representative of bondholders.

5. The guarantor, fidejussor and/or insurer is obligated to make payments to bondholders during the most 15 days from the date of request for payment. [*art.18/1 para. (25) of the law on securities market]*

6. The guarantor, fidejussor and/or insurer are obligated to make payments to bondholders in cash and single payments. *[similar to art. 163 para. (5) CC]*

7. If the guarantor, fidejussor and/or insurer didn't honor their payment obligations to bondholders during 15 days from the day of request for payment, they are entitled to forward a request for enforced execution by the issuer and/or guarantor, fidejussor and/or insurer of their payment obligations to bondholders. *[results from the provisions of art.18/1 para.(26) of the law on securities market]*.

8. During performed controls, the authorized employees of the National Commission are entitled to request from the guarantor, fidejussor and/or insurer to present any documents and explanations, verbal or written, referring to the procedure of payment obligations execution to bondholders. *[art.29 of the law on securities market]*

X. Redemption of Bonds Issue

10.1. Procedure of Redemption of Bonds Issue

1. The redemption of bonds is performed in the conditions and under the procedure of Law nr.199/1998 regarding securities market, present Regulation and prospectus of public offer of bonds.

2. Redemption of bonds is performed in the case of:
a) expiration of term of circulation of bonds;
b) calling of bonds at the initiative of the issuer;
c) calling of bonds at the request of bondholders;
d) conversion of bonds in own shares of the issuer.

3. The redemption of bonds is made by their repurchasing by the issuer or conversion in shares of the issuer and withdrawal from circulation. *art.18[1] para.(7 and 20) of the Law nr.199/1998.*

4. The redemption of bonds is performed in exchange for monetary resources, except cases when the redemption is made through conversion of bonds in shares of the issuer. *International practice, art.18[1] para.(7 şi 23) and art.31 para.(2) of the Law nr.199/1998.*

5. The redemption of bonds in exchange for monetary resources is performed by their transfer to the accounts indicated in the list of bondholders with the right to get the principal debt. *Similar to: art.18[1] para. (23) of the Law nr.199/1998 and art.49 para.(2) lit.a) of the Law №1134/1997.*

6. The redemption of bonds which term of circulation expired will be made on the working day following after the last day of the circulation term, defined under the prospectus of public offer of bonds. *The best international practice*

7. The list of bondholders with the right to receive the principal debt is executed by the independent registrar and will include information regarding all persons registered in the register of bonds on the last working day preceding the maturity day.

8. The circulation of bonds stops after execution of the list of bondholders with the right to receive the principal debt, except bonds subject to conversion in shares of the issuer.

9. The redemption of bonds should be done during the established term, regardless of the financial situation of the issuer. The issuer is not entitled to reject the request of bondholders or their commercial representative, if the latter acts in conformity with the conditions stipulated in the prospectus of public offer of bonds. *Pct.14 of Regulation №263/1997 Kazakhstan, art.18[1] para.(20) of the Law nr.199/1998*

10. All bonds of this issue or series are liable to redemption, except bonds subject to conversion in shares of the issuer or bonds repurchased or purchased by the issuer with market purposes and not excluded from the circulation. *International practice.*

11. The issuer is obligated to buyout the bonds at least at their nominal value if the term of bonds circulation expired. *art.18[1] para. (21) of the Law nr.199/1998*

12. Redemption of bonds for cash and payment of current income in the form of interest on bonds with coupon or the current income accumulated on bonds with discount, as well as, upon case, payment of penalties for delay is made simultaneously, but with separate indication of each transferred sum.

13. Funds related with redemption of bonds and payment of interest, not received by the bondholders are stored on a separate bank account for honoring the legal obligations of bondholders. The issuer can't use the funds from this account for other purposes. *art.18[1] para. (23) of the Law nr.199/1998*

14. State registration of the prospectus of public offer of bonds of next issue is not allowed until the approval by the National Commission of the report on the result of previous issue of bonds redemption, with expired maturity. *Pct.21 of the Regulation №263/1997 Kazakhstan*

15. The report on redemption of bonds, converted in shares, is an integral part of the report on the results of shares placement by conversion of bonds.

10.2. Registration of Bonds Issue

1. In view of erasure from the state Register of securities of the issue or series of redeemed bonds (further on: *issue of redeemed bonds*), the issuer will present to the National Commission the request for erasure of bonds issue, with the following documents attached:

a) minutes of the meeting of authorized management body of the issuer which approved the report regarding the results of bonds issue, qualified the issue as performed or non performed and, upon case, approved the list of subscribers to bonds; *similar to art.9 para. (2) lit. i) of the Law nr.199/1998*

b) report regarding redemption of bonds issue, approved by the authorized management body of the issuer – in two copies;

c) copy of published information regarding redemption of bonds issue;

d) original of the state registration Certificate of bonds issue; *similar to pct.103 of the Regulation nr.76-5-97*

e) list of bondholders executed at maturity – in 3 copies;

f) extract from the account of bonds issuer opened in the register of bondholders regarding the number of redeemed (repurchased) bonds from this account;

g) list of holders of non redeemed bonds, upon case - in 3 copies;

h) copies of documents confirming the transfer of funds to a separate deposit bank account opened for honoring the legal requirements of non redeemed bonds' holders, upon case.

2. The documents for registration of redemption of bonds of the issuer will be presented to the National Commission during at least 40 days from the date of expiration of redemption term.

3. The list of bondholders executed at maturity should include the data necessary for confirmation of fulfillment of financial obligations by the issuer to each bondholder:

a) identification data of bondholder;

b) quantity of held bonds;

c) total sum of interest paid during the circulation of bonds;

d) total sum paid for redemption of held bonds;

e) maturity and date of payment of funds for bonds redemption or date of transfer of funds to a separate bank account opened for honoring legal requirements of bondholders, which didn't submit data on their personal accounts.

4. The report regarding redemption of bonds will include: *similar to art.18 para. (2) of the Law nr.199/1998*

a) data on the authorized management body of the issuer, which approved the report on redemption of bonds issue;

b) description of class of bonds, including ISIN; *+ art.9 para.(2) lit.d) of the Law nr.199/1998 and pct.48 of the Regulation nr.76-5/1997*

c) modality of redemption – by monetary resources or conversion in shares;

d) characteristics of shares in which redeemed bonds were converted;

e) balance of issued, redeemed or non redeemed bonds of the issue;

f) sums of funds paid to the issuer as interest (coupon or discount) during the period of bonds circulation, as well as dates of payment, as to those provided by the prospectus of public offer of bonds;

g) sum of monetary funds paid by the issuer for bonds redemption, as well as the date of payment as to those provided by the prospectus of public offer of bonds;

h) confirmation regarding execution of other obligations of the issuer to bondholders.

5. The documents mentioned in letter f)-g), point 1 shall be submitted by the issuer if the bondholders didn't present and/or indicate the manner of receiving the funds related with bonds' redemption.

6. The National Commission examines the documents submitted by the issuer and approves the decision on registration or refusal of registration of bonds redemption during the most 30 days from the date of receipt of all documents indicated in point 1. *similar to art.14 para.(3) of the Law nr.199/1998*

7. After erasure of redeemed bonds issue from the state register of securities, the National Commission will:

a) return to the issuer a copy of the report regarding issue of bonds with the notice "REGISTERED", confirmed by the seal of the National Commission indicating the number and date of respective decision adoption; *similar to pct.48 of the Regulation nr.76-5/1997*

b) withdraw from circulation the original of the Certificate of state registration of redeemed bonds with the notice "redeemed". *similar to pct.108 of the Regulation nr.76-5/1997.*

8. Information regarding bonds issue shall be published by the issuer during 10 days from the date of receipt of report on bonds redemption, registered by the National Commission. *similar to pct.109 of the Regulation nr.76-5/1997.*

9. The issuer obligatorily will inform the stock exchange on the redemption or canceling of bonds issue, admitted for trading at the exchange. *Pct.110 of the Regulation nr.76-5/1997.*

10. Exclusion from the register of bondholders of data regarding redeemed bonds, and withdrawal of bonds from circulation by making the notice "redeemed" on bonds certificates is performed based on the extract regarding erasure of redeemed bonds from the state register of securities, as well as the list of these bonds.

11. Information regarding redemption of bonds by repurchase or purchase by issuer during the process of bonds circulation is reflected in the specialized reports of issuer. *similar to pct.10.2 of the Regulation nr.72-97*

XI. Supervision. Final Provisions

11.1. Supervision

1. The National Commission supervises the placement, circulation and redemption of corporate bonds and, in case of mortgage bonds, performs the corresponding supervision in cooperation with the National Bank of Moldova. *Art.1 para.(1), art.2 para.(1), art.4. para.(1) and art.7 din Law on the National Commission of Financial Market nr.192/1998*

2. The state supervision of bonds market should provide protection of rights and legal interests of corporate bondholders (investors), as well as development of bonds market.

3. The participants of corporate bonds market bear the responsibility provided by law for violation of imperative norms of placement, circulation, redemption and state registration of corporate bonds.

4. The following illegal facts (actions and inactions) constitute administrative contraventions on the mortgage bonds market:

a) non compliance by the issuer of requirements on size and structure of mortgage cover provided by point 3, 6 and 9 *[of chapter 5.3];*

b) non settlement by the issuer, within the established timeframe, of violations related with keeping of the register;

c) non submission to the auditor of information from the mortgage cover register, necessary for the procedure of assistance in view of mortgage cover management.

Art.1 para.(1), art.2 para.(1), art.4. para.(1) and art.7 of the Law on the National Commission for Financial Market nr.192/1998 international practice, art.37 para.(1) lit.b) and lit. c of the Law nr.32/2006 Romania.

5. The sanctions for administrative contraventions on the corporate bonds market are applied based on protocols of stating administrative contraventions executed under the procedure established by the National Commission. *art.9 para.(1), lit.k) of the Law nr.192/1998; art.37 para.(8) of the Law nr.32/2006 Romania.*

11.2. Final Provisions

1. If not all the documents necessary for registration of events related with issue, circulation, redemption of bonds were submitted to the National Commission, the terms for examining theses documents indicated in present Regulation, will start on the date of submission of the last document provided by the Regulation.

2. Homologation of the document with violations of the law is equivalent to non submission of the respective document to the National Commission.

3. The list of subscribers and bondholders submitted to the National Commission should be numbered, bind, signed on each page and sealed.

4. In case of non correspondence of information included in submitted documents to the requirements of the law or the procedure of their adoption, the National Commission is entitled to stop the examination of documents and inform the issuer on the corresponding reasons, in written. The Commission continues the registration of public offer starting with the date when the issuer submitted the corrected documents.

5. The opening and closing of the register of bondholders is performed in conformity with the Regulation on the stock companies register of shareholders and register of owners of bonds, approved by the National Commission on November 28, 1004.

6. The copies of notes (information), published by the issuer in conformity with the provisions of present Regulation will be submitted to the National Commission during 3 days from the date of publication. *[similar to pct. 66 of the Regulation 76/5 din 29.12.1997)*

Annex
to the Regulation regarding Issue, Circulation
and Redemption of Corporate Bonds

Minimal Composition of the Prospectus of Public Offer of Bonds

The cover letter of the prospectus of public offer of bonds includes:

1) name of document „Prospectus of public offer of bonds on primary market";
2) full and short name of the issuer;
3) type and class of bonds;
4) number of issued bonds, and the following notice:

„State registration of bonds issue by the National Commission of the Financial Market doesn't represent any recommendations to investors with respect to purchase of bonds described in the mentioned prospectus. The National Commission for Financial Market, which performed the state registration of bonds, doesn't bear any responsibility for the accurateness of information included in this document.

The prospectus of public offer of bonds was analyzed only in view of its content correspondence to the requirements of the legislation of the Republic of Moldova.

The persons with responsible functions of the issuer bear responsibility for the accurateness of information included in the present prospectus and confirm that all presented information is accurate and doesn't mislead the investors with respect to the issuer and its obligations".

Regulation regarding state registration of non state bonds nr.269 din 30.07.2005, annex 1- Kazakhstan

The resume comprises the following outlines:

1) Main characteristics of issuer;
2) Risk factors related with the issuer, guarantor and bonds;
3) Warning that any decisions to invest in securities should be based on examination by the investor of the prospectus as a whole entity. *Law on securities market nr. 199/1998, art. 13, EU Directive 2003/71/EC – (21)*

I. Data on Issuer

1.1 Full and short name of issuer.
1.2 Legal form of issuer.
1.3 Date and number of state registration of issuer, name of registration of body.
1.4 Address of issuer.
1.5 Short background of issuer.

1.6 List of persons holding at least 5% of the total number of shares with voting rights including the full names, addresses (or names and surnames), information regarding number of shares with voting rights belonging to them and their quote in the total number of mentioned shares.

1.7 The structure of management bodies of issuer, indicated in constitution documents and the term of their authorities.

Pct. 1.1-1.7 of the Regulation regarding the procedure of state registration of corporate bonds nr.72/1 from 27.11.97, annex nr.3.

1.8 The list of all members of the council of the company and other management bodies with such functions indicating:

- name and surname;
- position (besides management bodies of issuer) during the last 3 years;
- number of securities of the issuer belonging to the member of the management body (divided by classes), its quotes in the statutory capital and form of payment.

Regulation regarding state registration of non state bonds nr.269 din 30.07.2005 annex 1, pct.13 – Kazakhstan

1.9 Main types of issuer's activity:

1.10 Description of main activity (services) of the issuer, necessities and groups of consumers).

1.11 Data on licenses, patents, permissions obtained by the issuer for its activity, indicating the date and number of the document, validity term and name of authorized body issuing of the document.

Regulation regarding state registration of non state bonds nr.269 din 30.07.2005 annex 1, p.25 – Kazakhstan

1.12 The marketing and production analysis and estimation of issuer's activity.

1.13 Data on administrative and economic sanctions applied to issuer, members of administrative bodies, directors and other officials by public administration or judicial authorities during the last three years since adoption of decision regarding bonds issue.

1.14 These data should include the date, reason of sanction, body applying the sanction, type and measure of sanction, level of sanction execution at the moment of adoption of decision on bonds issue.

1.15 . The list of enterprises, which issuers hold separately more than 5% of the statutory capital (assets) indicating:

- full name of enterprise and its office;
- volume of enterprise statutory capital (assets);
- number of shares (associate quotes, quotes parts) belonging to the issuer;
- quote parts of the issuer in the statutory capital (assets).

1.16 Issuer' belonging to industrial, banking, financial groups, concerns, associations, public organizations, membership of commodity, currency and stock exchanges indicating the name and offices in the Republic of Moldova and abroad.

1.17 The list of all branches and representations of the issuer indicating the full name, legal or post addresses.

Pct.1.9, 1.10, 1.12-1.16 of the Regulation regarding the procedure of issue and state registration of corporate bonds nr.72/1 from 27.11.97 annex 3

II. Data of the Financial Situation of the Issuer

2.1. The financial reports with all corresponding annexes for the last three financial closed years or each closed financial year since creation, if this period is smaller than three years confirmed by the audit report.

2.2. The balance sheet under the established form, as of the end of last quarter before the adoption of decision regarding issue of bonds, confirmed by the audit report.

The mentioned financial reports are an integral part of the prospectus of public offer.

– Law on securities market nr.199/1998, art. 13

2.3. The full official name of the audit company (name, surname – upon case, middle name of auditor), who performed (performs) the audit of financial reports of the issuer.

Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 4, p. 2.1

2.4. The report regarding formation and usage of the reserve fund during the last three years or since constitution of the issuer.

2.5. Information regarding lack of arrears to the budget.

2.6 Data on loans and debts on them:

- short term bank loans and credits (including expired ones) indicating the currency;
- long term bank loans and credits dividing them by maturity (including expired ones) indicating the currency;
- total value dynamics on bank loans and credits for the last three years.

Regulation of state registration of non state bonds nr.269 din 30.07.2005 annex 1, p.35 – Kazakhstan

2.7. Data on commercial debts related with issuer's main type of activity.

- structure of commercial debt indicating the value of debt and company, to which the debtor owes funds in the amount bigger than 5 % of the total commercial debt sum or the list of the biggest ten creditors of the issuer.

Regulation of state registration of non state bonds nr.269 din 30.07.2005 annex 1, p.36 – Kazakhstan

2.8. Data on allocation of funds for capital investments (volume of investments, volume of unfinished constructions).

2.9. Data on the statutory capital of the issuer under the following form:

- sum of statutory capital;
- division of statutory capital;
- paid part of the statutory capital.

2.10. The report on securities already issued by the issuer dividing them by series, executed under the following model:

- type of securities;
- number of order of securities issue;
- date of adopting the decision on issue;
- number of state registration of securities (ISIN);
- date of state registration of securities;

- number of securities of this issue, including securities already placed in circulation and number of non placed securities;
- nominal value of a security;
- sum of issue (nominal value);
- conditions of income payment (dividends, interest, etc.) on these securities.

2.11. The structure of taxes and fees paid by the issuer. *Law on securities nr.199/1998, art. 13*

III. Data on Estimated Bonds Issue

General data on bonds:

a) type and class of bonds;
b) maximal and/or minimal number of bonds of the issue, and also the maximal and/or minimal number of bonds for subscription (nominal value);
c) nominal value of a bond; *Regulation nr.809/2004 on implementing EU Directive 2003/71/EC, annex 5, p.5.1.5.*;
d) form of bond (materialized, non materialized);
e) interest on bonds including the following information:
- interest rate on one bond;
- date of beginning of interest calculation, procedure and terms of payment, periodicity and date of payment indicating the currency and the manner of establishing the date of currency exchange rate – in case of relevant payments indexation;
- period of time used for interest calculation on bonds;
- manner of calculation in case of indexed bonds issue;
- grace period, upon case;
- if the interest rate is floating, the conditions and manner of its calculation is provided for. *Regulation of state registration of non state bonds nr.269 from 30.07.2005 annex 1, p.38-4) – Kazakhstan; Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.4.9*
f) data on circulation and payment of bonds, indicating the term of bonds circulation and conditions of payment; date of bonds redemption; place (s) of payments on bonds; manner of payment of bonds.

Conditions and manner of making payments on bonds:

a) conditions, manner of making payments on bonds is indicated, as well as the modalities of their calculation;
3.3. Guarantee of mortgage bonds and other secured bonds.
If the bonds issue is guaranteed by pledge, the following is included:
a) object of pledge, pledge value and manner of pledge right execution;
b) evaluation of pledged goods, performed by an independent evaluation company, balance value and estimative market value of assets in the property of the issuer and which is pledged for guaranteeing the obligations of the issuer.

In case of mortgage bonds the following is indicated:
a) information on commercial representative (name, address, phones, name and surname of administrator), as well as his/her powers;
b) report regarding the situation of the mortgage cover, with a note made by an auditor according to agreed procedure.

If the bonds are guaranteed by third party, the preliminary contracts with third parties will be included. Instead of preliminary contracts, the contracts with third parties presenting guarantees for bonds issue are presented.

3.4. Data on the procedure of registration of rights on bonds:

a) all data of the registrar of bondholders are indicated, including name, address, phone, date and number of corresponding contract;

b) procedure of entering data in the register of bondholders under the present Regulation or other legislative acts;

Regulation of state registration of non state bonds nr. 269 from 30.07.2005 annex 1, p.38, 5-6) – Kazakhstan, Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.5.4.2

3.5. Data on the payment agent:

a) all data on the payment agent are indicated, including name, address, phone, date and number of corresponding contract;

Regulation of state registration of non state bonds nr. 269 from 30.07.2005 annex 1, p.38, 5-7) – Kazakhstan

3.6. Data on underwriters, if bonds are placed through underwriting:

a) name, legal address, phone, and number of corresponding contract; data on the payment agent are indicated,

b) number and date of issuing the license for the right to perform intermediary activities of securities issuing;

c) function during placement of bonds;

d) quantum of commission and /or other remuneration of the underwriter.

Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.5.4.3

3.7. The rights confered to bondholders by each bond:

a) right of bondholders to receive from the issuer in due term the prospectus of public offer of bonds and also the right to interest in the form of percent or discount calculated from the nominal value of the bond;

b) in case of premature repurchase or preliminary payment on bonds, the terms, conditions and manner of repurchase or payment of bonds are indicated.

c) in case when the default of issuer becomes possible and cases when bondholders have the right to request preliminary payment of bonds.

There will be indicated the measures to be undertaken by the issuer in case of default, procedures to protect the rights of bondholders in cases of non fulfillment or inadequate fulfillment of obligations related with payment of interest on bonds.

Regulation of state registration of non state bonds nr. 269 from 30.07.2005 annex 1, p.38, 6-7) – Kazakhstan

Data regarding bonds issue:

a) date of adoption of decision regarding issue unfolding; body adopting the mentioned decision; place (s) where the potential owners can subscribe to the bonds and inform themselves with respect to the prospectus of public issue;

b) conditions and manner of bonds placement; date of beginning and closing of the process of placement (open subscription) of bonds.

3.9. Conditions for estimation of bonds' price:

a) method for calculating the price of bonds placement or the estimate price;

Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.5.3.1

b) manner of bonds conversion in shares of the company, in case of convertible shares issue;

c) information regarding taxation of income on bonds.

3.10. Restrictions on bonds circulation:

Any restrictions related with circulation of bonds, restrictions referring to potential buyers of bonds, including categories of investors for which placement of bonds is intended. In case of lack of restrictions this fact is expressly indicated in the prospectus.

Regulation Nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.4.13; Regulation of state registration of non state bonds nr. 269 from 30.07.2005 annex 1, p.42 – Kazakhstan

IV. Directions of Usage of Funds Raised from Bonds Issue

4.1. The directions of usage of funds rose from bonds issuing as well as the conditions when modification of distribution of funds is possible, indicating the respective modifications.

Regulation on state registration of non state bonds nr.269 din 30.07.2005 annex 1, p.41 – Kazakhstan

V. Risk Factors

5.1. The analysis of factors determining the risk of present offer of bonds, including risk factors:

a) policy, economic and social risk;

b) level of development of the securities market;

c) taxation of issuer and allocations for securities, the influence of adopted system of accounting and audit;

d) level of normative regulation;

e) protection of rights of bondholders;

f) other risk factors, including inactivity of issuer in the past, lack of income as a result previous activity, unstable financial situation, specific type of activity, practiced or intended to be practiced by the issuer, etc.

Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, art. 25

VI. Other Information

6.1. The persons responsible for including information in the prospectus are identified, by indicating latter' name, position or in case of legal persons – full name and legal address and also the oath of respective persons certifying that the information included in the prospectus is genuine and no data that could influence the decision of the investor to invest in bonds proposed for placement are omitted.

Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.1

6.2 The sum of issuer's expenses for bonds issue is indicated, as well as the source of these expenses.

Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.5.4.3
Regulation nr.809/2004 on implementing the EU Directive 2003/71/EC, annex 5, p.3.2

6.3. The information regarding places where the investors can find the prospectus of bonds issue is included.

6.4. Mass media editions where the information on issuer activity is published are enumerated, as well as modifications and amendments to the prospectus of public offer of bonds, cease of issue, qualification of issue as non performed or null.

6.5. The prospectus of public offer of bonds is signed by the administrator of the enterprise, chief accountant or other authorized persons replacing them and is certified by the seal of the issuer. *Regulation on state registration of non state bonds nr.269 from 30.07.2005 annex 1, p.44 – Kazakhstan*

ATTACHMENT 6

USAID | ACCESS TO CREDIT INITIATIVE

FROM THE AMERICAN PEOPLE | MORTGAGES. FIXED INCOME. LEASING.

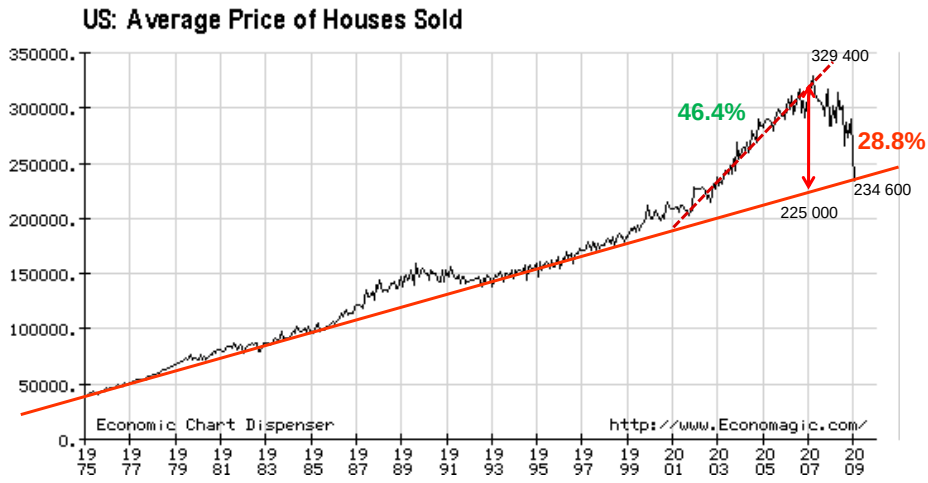
1

GLOBAL FINANCIAL CRISIS: DEBT DEFLATION

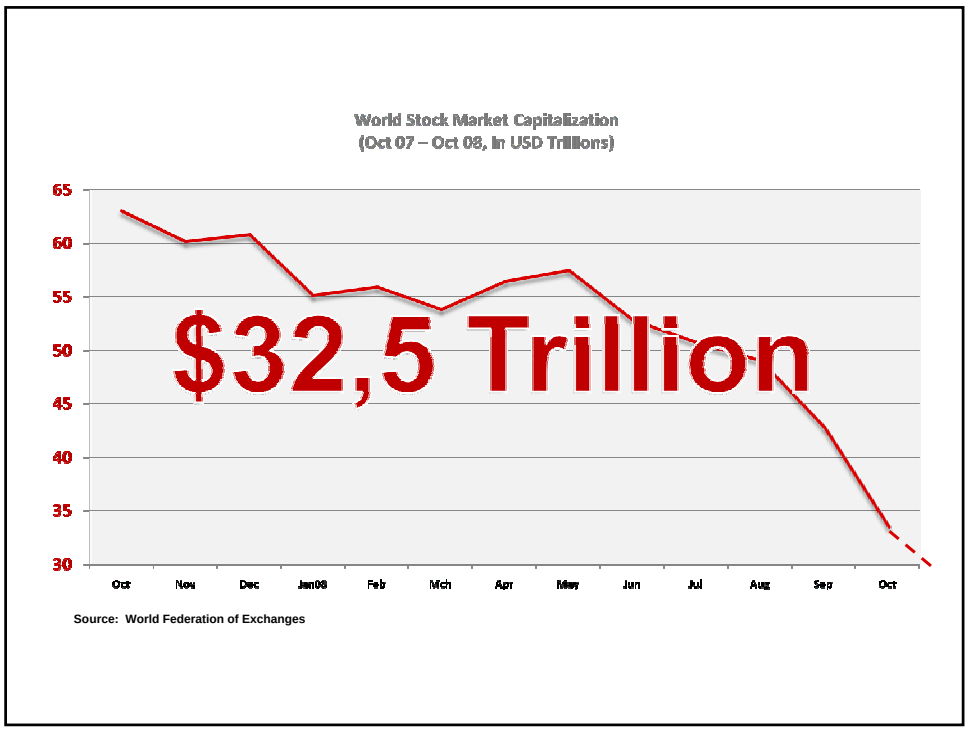
ATCI

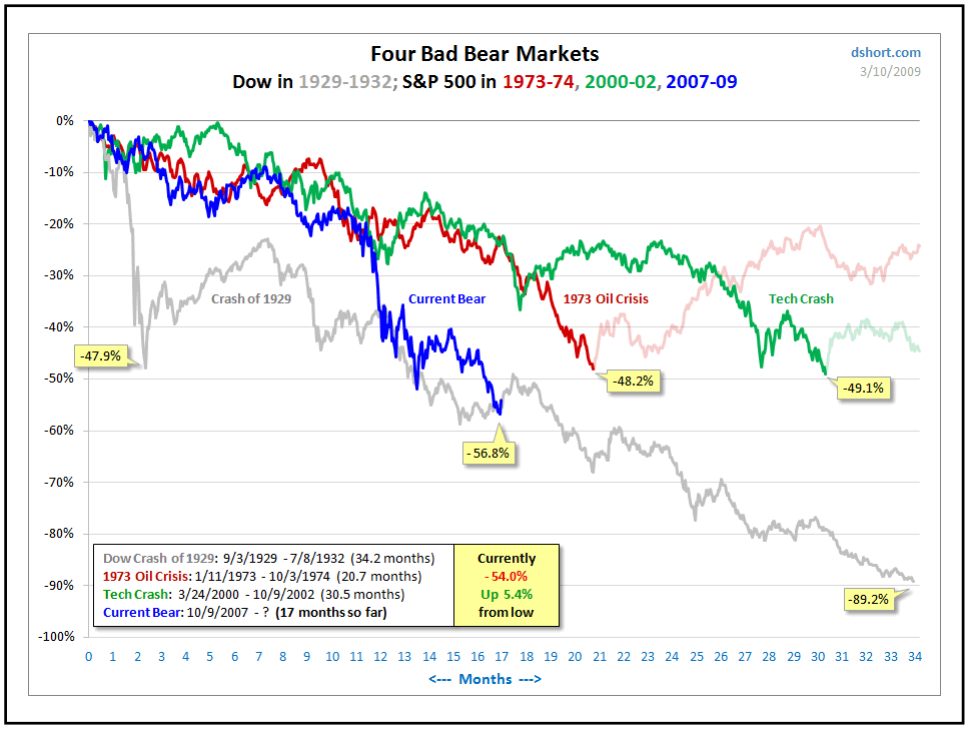
Steve Moody
Chisinau February 2009

US Housing Bubble



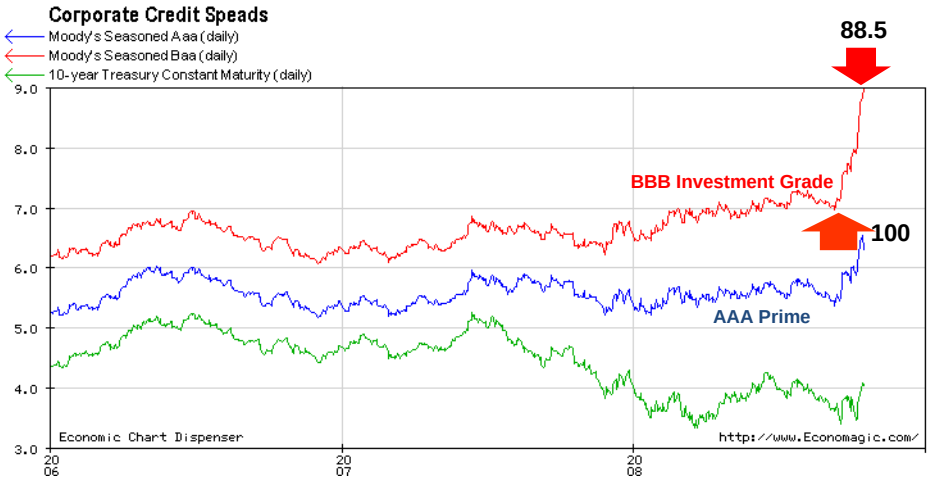
Source: US Census Bureau, January 09


World Stock Market Capitalization
(Oct 07 – Oct 08, in USD Trillions)
65
60
55
50
45
40
35
30
$32,5 Trillion
Oct
Nov
Dec
Jan08
Feb
Mch
Apr
May
Jun
Jul
Aug
Sep
Oct
Source: World Federation of Exchanges

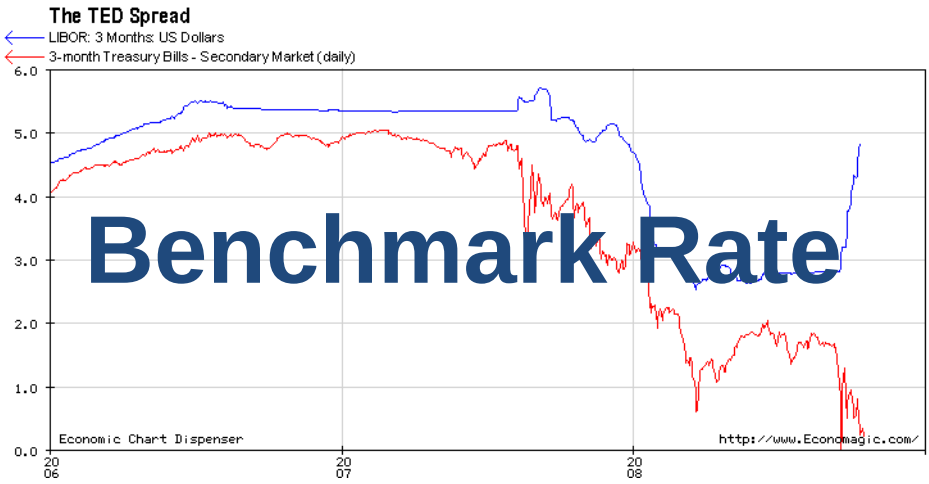

Four Bad Bear Markets
Dow in 1929-1932; S&P 500 in 1973-74, 2000-02, 2007-09
dshort.com
3/10/2009
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
-90%
-100%
Crash of 1929
Current Bear
1973 Oil Crisis
Tech Crash
-47.9%
-48.2%
-49.1%
-56.8%
-89.2%
Dow Crash of 1929: 9/3/1929 - 7/8/1932 (34.2 months)
1973 Oil Crisis: 1/11/1973 - 10/3/1974 (20.7 months)
Tech Crash: 3/24/2000 - 10/9/2002 (30.5 months)
Current Bear: 10/9/2007 - ? (17 months so far)
Currently
- 54.0%
Up 5.4%
from low
0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34
<--- Months --->

S&P GLOBAL COMMODITY INDEX

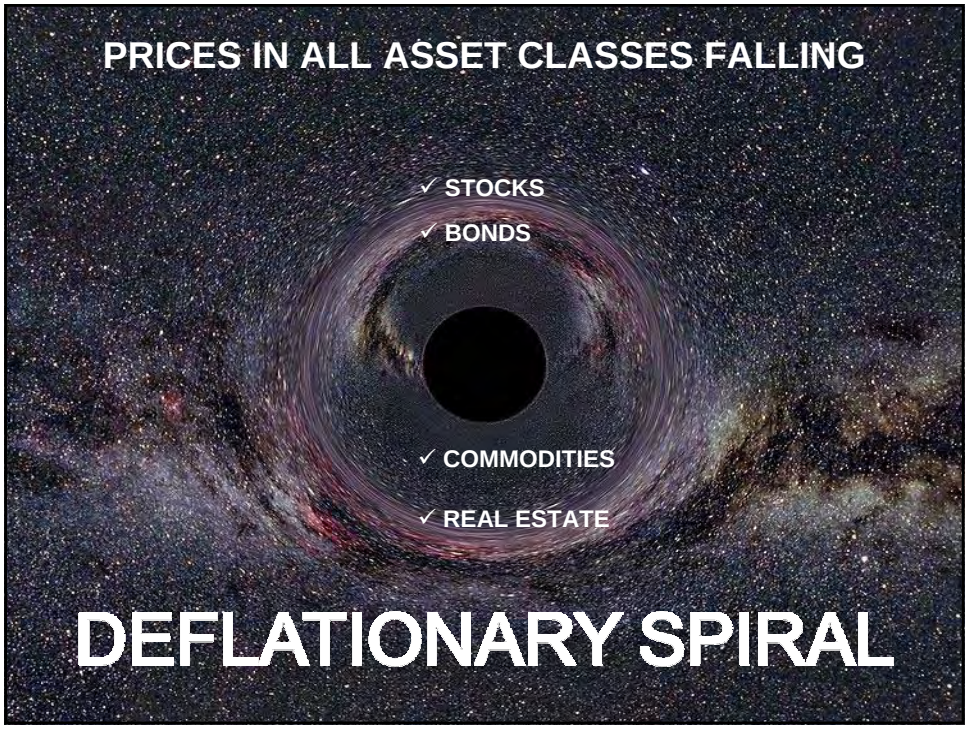
West Texas Intermediate Crude; Dollars Per Barrel



Corporate Bond Prices Collapsing



The TED Spread is a credit spread. LIBOR is a commercial bank deposit rate; the T-Bill is the 'risk-free rate of return.' The spread measures the degree of confidence banks have in lending to one another.



What makes prices go up?

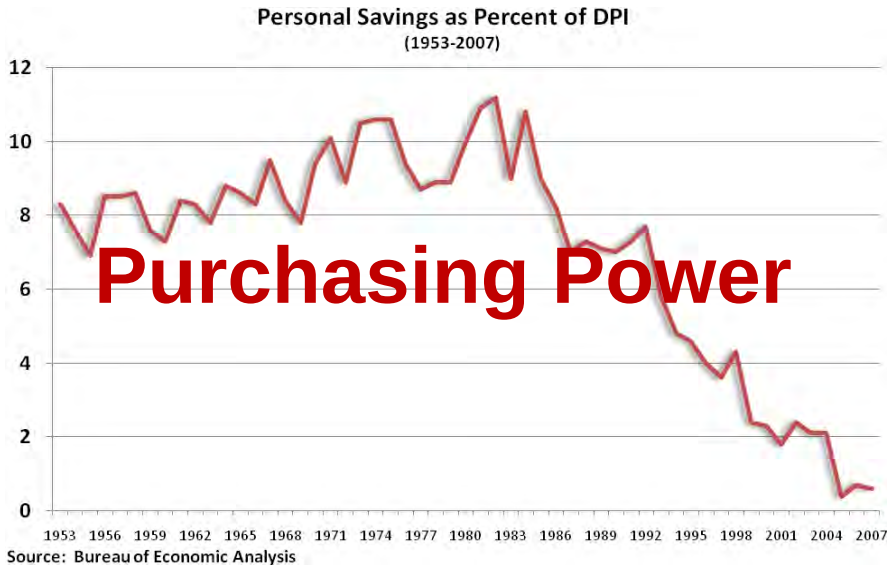
Buyers

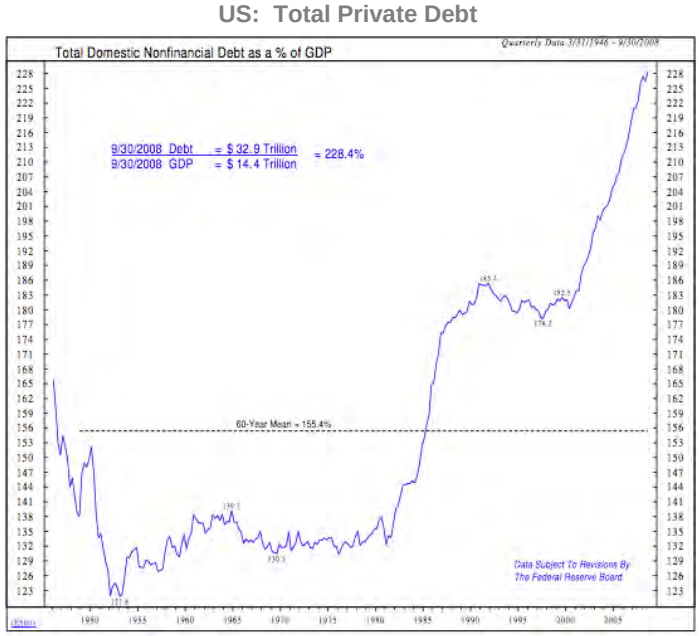
Purchasing Power

Why do you buy?

Why do you buy financial assets?

belief


Personal Savings as Percent of DPI
(1953-2007)
12
10
8
6
4
2
0
1953 1956 1959 1962 1965 1968 1971 1974 1977 1980 1983 1986 1989 1992 1995 1998 2001 2004 2007
Source: Bureau of Economic Analysis
Purchasing Power


US: Total Private Debt
Total Domestic Nonfinancial Debt as a % of GDP
9/30/2008 Debt = $ 32.9 Trillion
9/30/2008 GDP = $ 14.4 Trillion
= 228.4%
60-Year Mean = 155.4%
Data Subject To Revisions By
The Federal Reserve Board

2007				2009			
Assets		Debts		Assets		Debts	
Shares	19.9			Shares	10.0		
Housing	21.5	Household	13.8	Housing	15.0	Household	13.8
CRE	5.3	Business	10.6	CRE	3.2	Business	10.6
TOTAL	46.4	TOTAL	24.4	TOTAL	28.2	TOTAL	~~24.4~~ 12.7
		Net Worth	22.0			Net Worth	3.8

2007 Debt to Asset Value Ratio: 24.4/46.4 = 0.52

2009 Debt at 2007 DAV Ratio: 24.4*0.52 = 12.7

USD 11.7 Trillion must be paid off or written off

Bank Loans

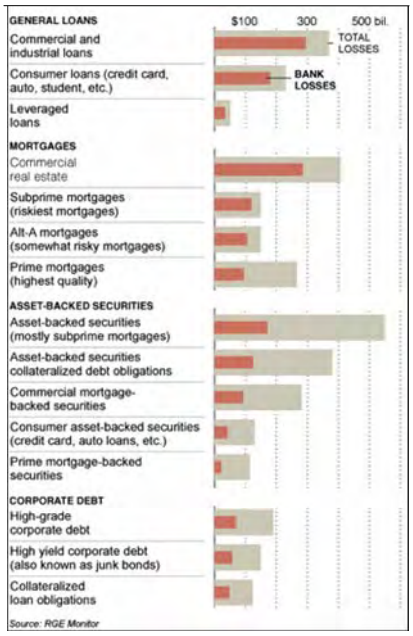
COMMERCIAL BANKS/THRIFTS

Number of banks/thrifts:	8,384
Total Assets:	USD 13,[illegible]3.7
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, SIFMA, RGE Monitor, Author



BOND MARKET

Total Size: USD 3[illegible]32.1

$23,232 Trillion

Corporate Bonds	6,139.6
Municipal Bonds	2,669.0
Mortgage Securities	8,915.4
Asset-backed Securities	2,796.0
TOTAL	20,520.0

$9.95 Trillion

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: Public	Debt Securities: Private	Debt Securities: Total	Bank Assets	Bonds, Equities, and Bank Assets[2]	Bonds, Equities, and Bank Assets[2] *(In percent of GDP)*
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	1,585.7	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 IMF ***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%

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)

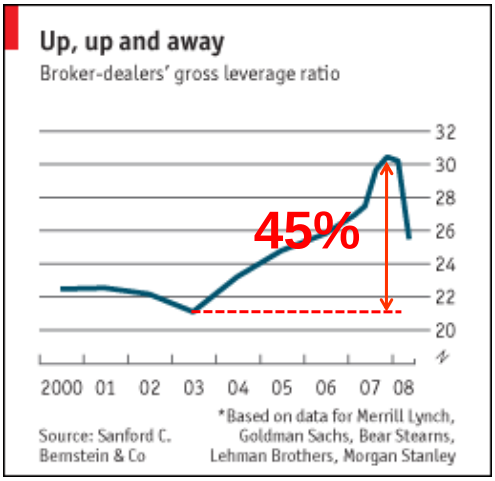
	GDP	Total Reserves Minus Gold[1]	Stock Market Capitalization	Debt Securities: Public	Debt Securities: Private	Debt Securities: Total	Bank Assets	Bonds, Equities, and Bank Assets[2]	Bonds, Equities, and Bank Assets[2] *(In percent of GDP)*
World	54,545.1	6,448.0	65,105.6	28,632.1	51,189.8	79,821.9	84,784.5	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	1,585.7	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 IMF ***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%

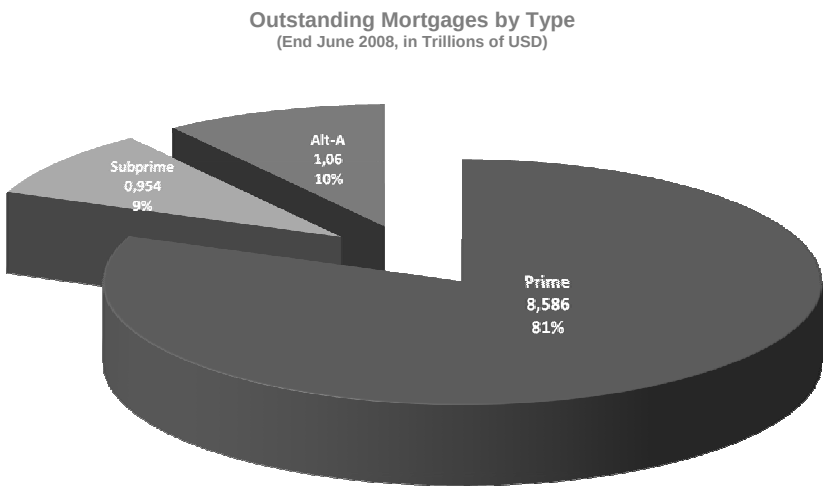
LEVERAGE



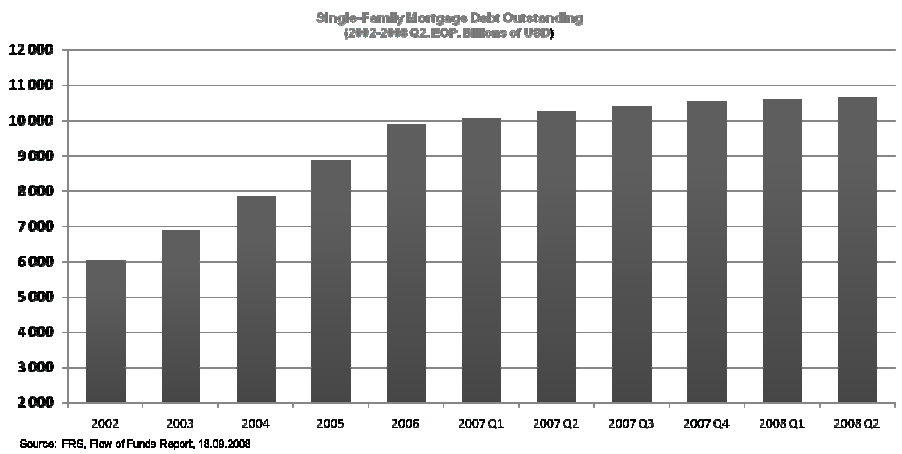
Source ***The Economist, DowJones Financial News***

Total Assets (GAAP) vs. Risked-Weighted Assets (Basel II)

The US Mortgage Market

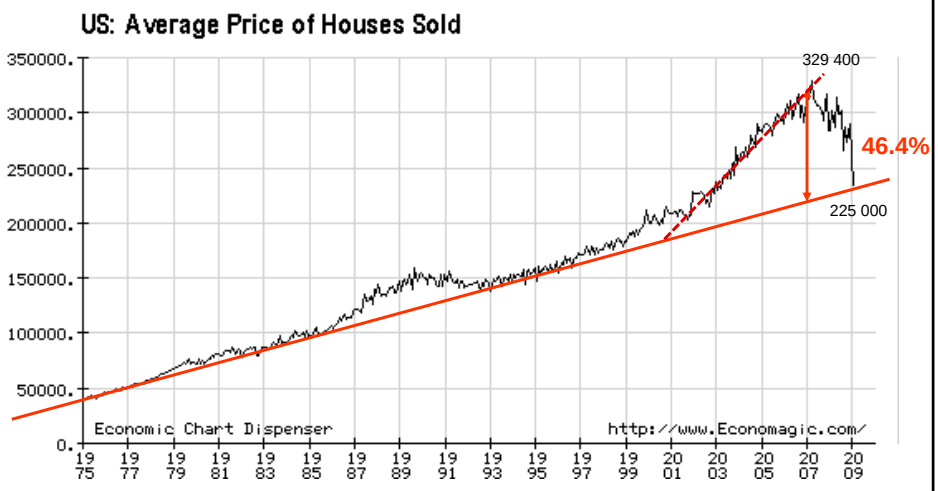


Total Residential Mortgage Portfolio – USD 10.6 Trln



130.4 million housing units; 111.4 million households; home ownership rate: 67.9%; 51.8 million mortgages outstanding

US Housing Bubble

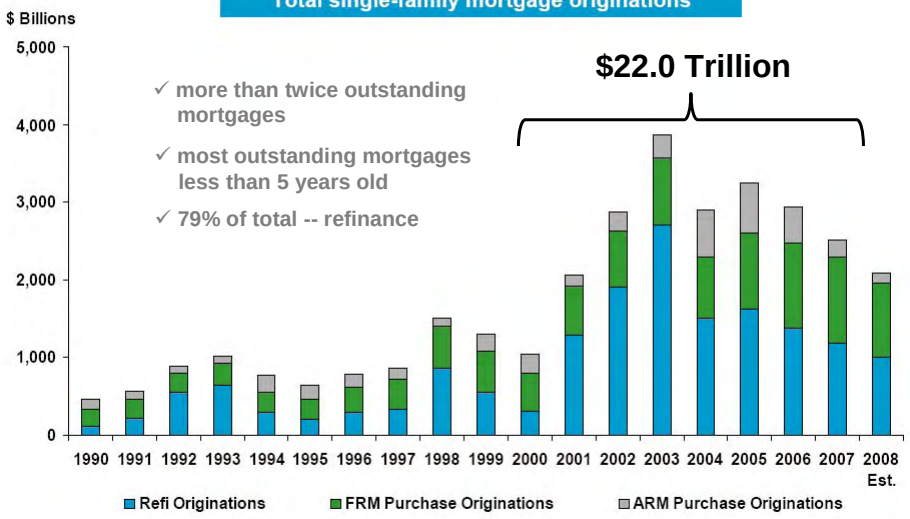


Source: US Census Bureau, Q3 08

Freddie Mac
We make home possible℠

Mortgage Origination: 2000-2007

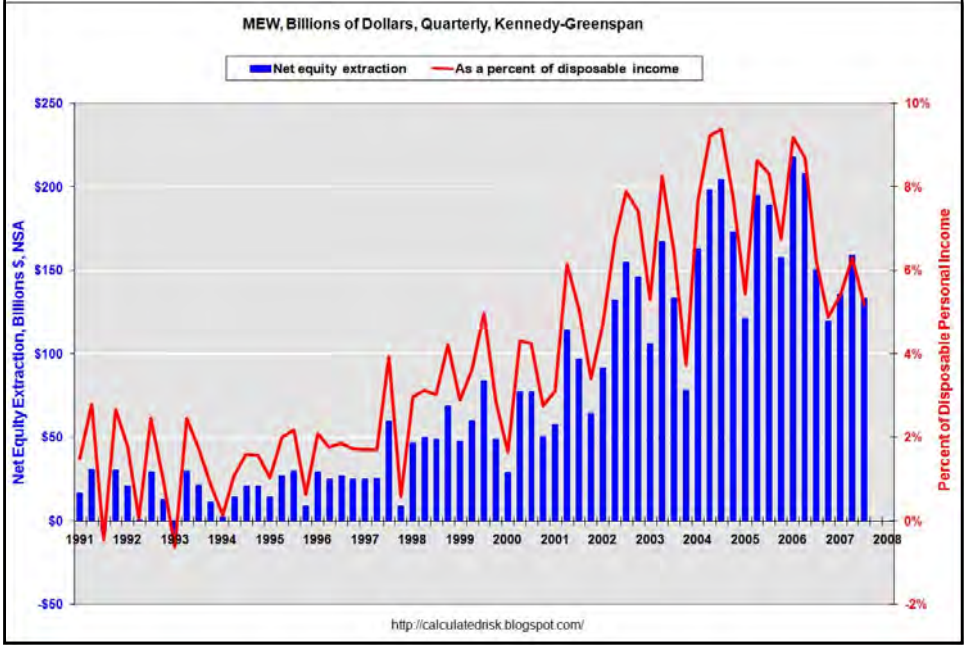
Total single-family mortgage originations



Source: U.S. Department of Housing and Urban Development, Federal Financial Institutions Examination Council, Federal Housing Finance Board. 2008 data based on the April 2008 forecast of Freddie Mac's Office of the Chief Economist.

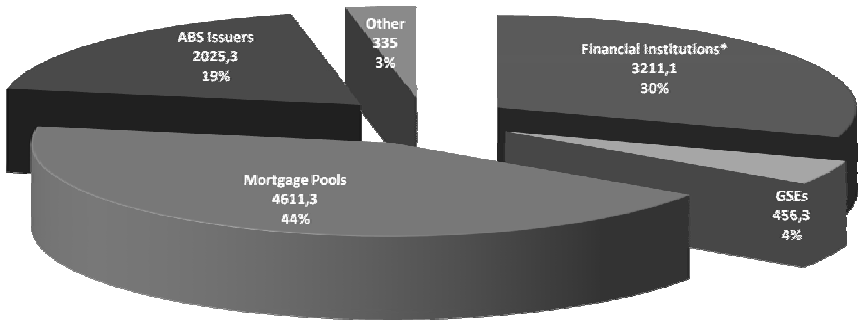
12

EXCESS LIQUIDITY



Ownership of Outstanding Mortgage Debt

(On 30 June 2008, in Billions of USD)



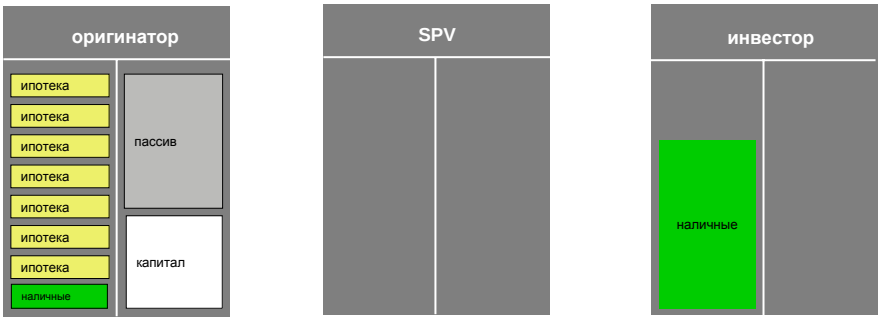
*Of which, Banks and Thrifts USD 2.1 Trillion

Source: Federal Reserve System, Flow of Funds Accounts, 09.08

securitization

Fannie Mae or Private Label Pass-Through

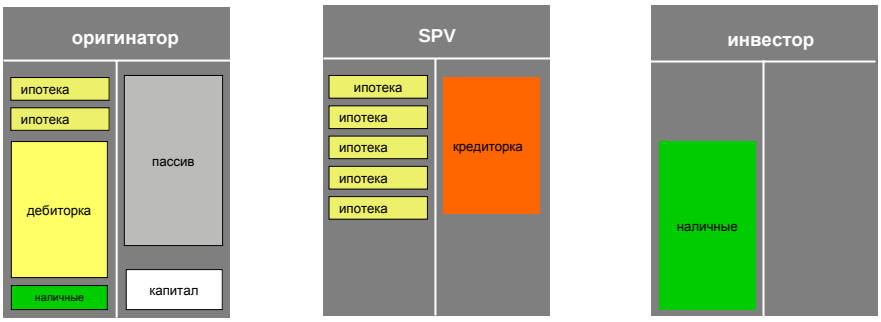
АКТ КУПЛИ-ПРОДАЖИ



29

securitization

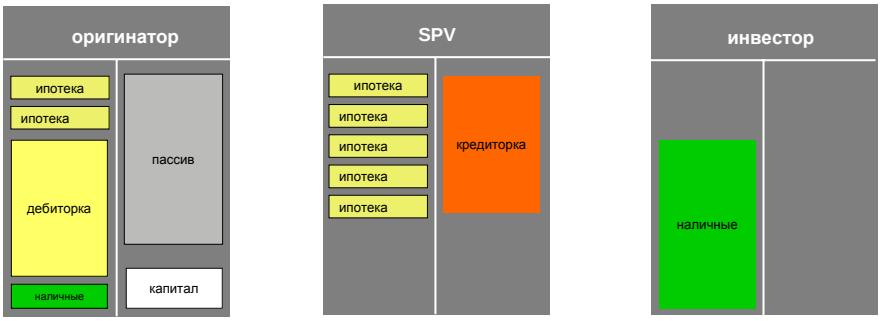
Fannie Mae or Private Label Pass-Through



30

securitization

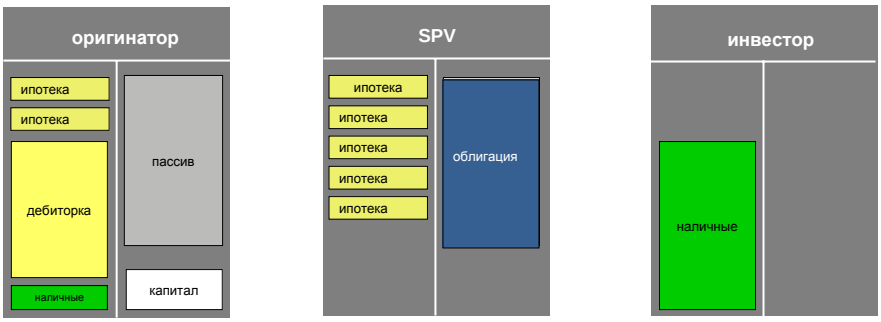
Fannie Mae or Private Label Pass-Through



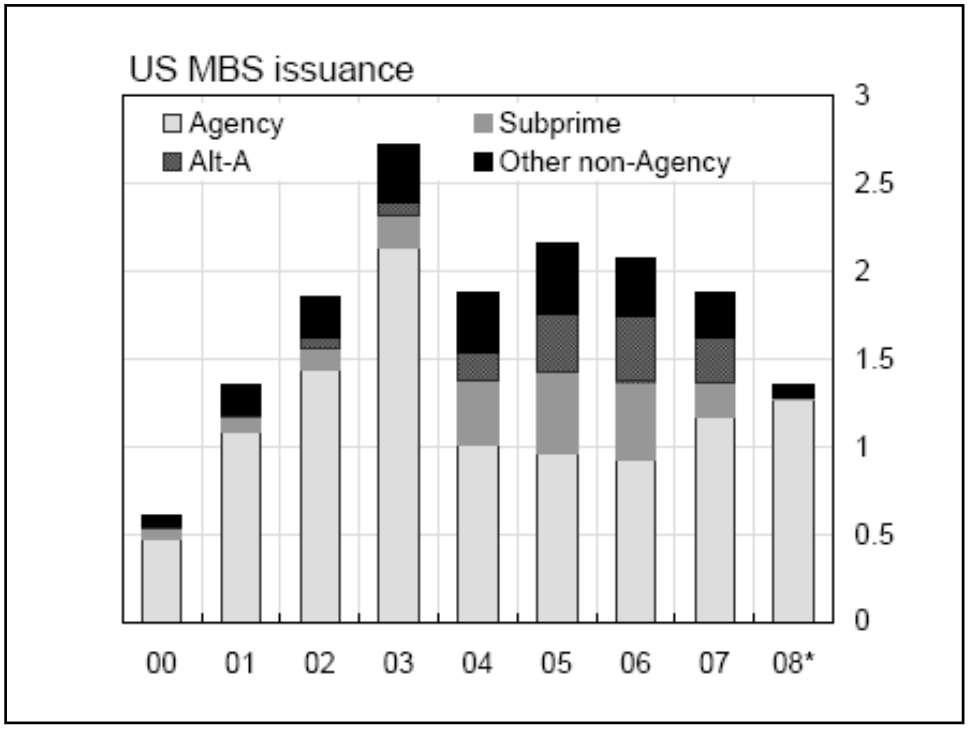
31

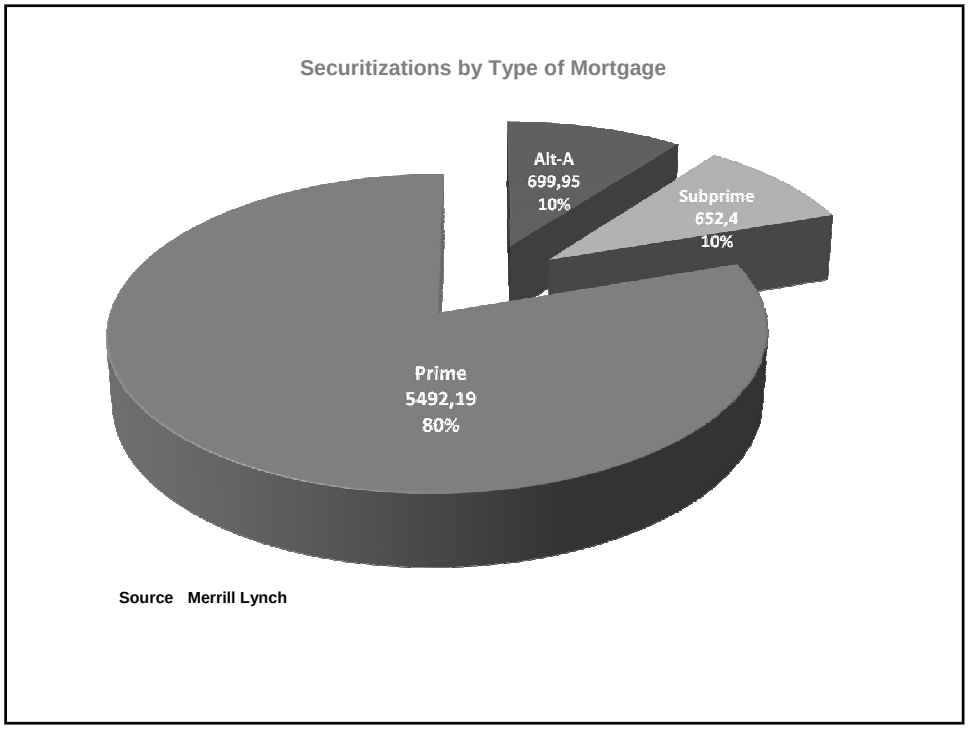
securitization

Fannie Mae or Private Label Pass-Through



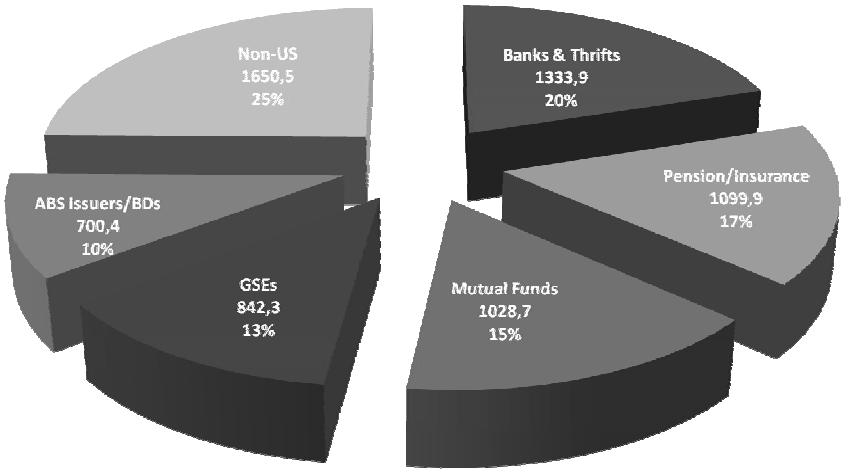
32


US MBS issuance
Agency
Subprime
Alt-A
Other non-Agency
3
2.5
2
1.5
1
0.5
0
00
01
02
03
04
05
06
07
08*


Securitizations by Type of Mortgage
Alt-A
699,95
10%
Subprime
652,4
10%
Prime
5492,19
80%
Source Merrill Lynch

Ownership of Outstanding Mortgage Securities

(On 30 June 2008, in Billions of USD)

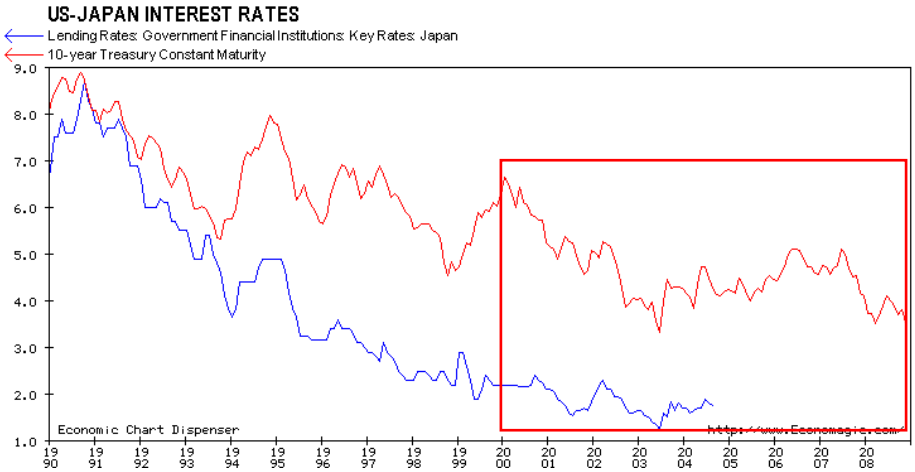


2.1 Trillion Mortgages
1.3 Trillion MBS
3.4 Trillion Total Exposure

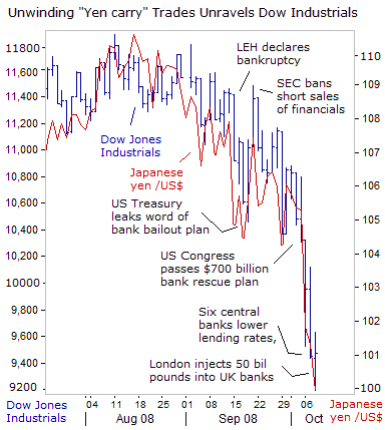
Source: Federal Reserve System Flow of Funds Accounts, 09.2008

The Carry Trade

The Carry Trade



The ¥ Carry Trade



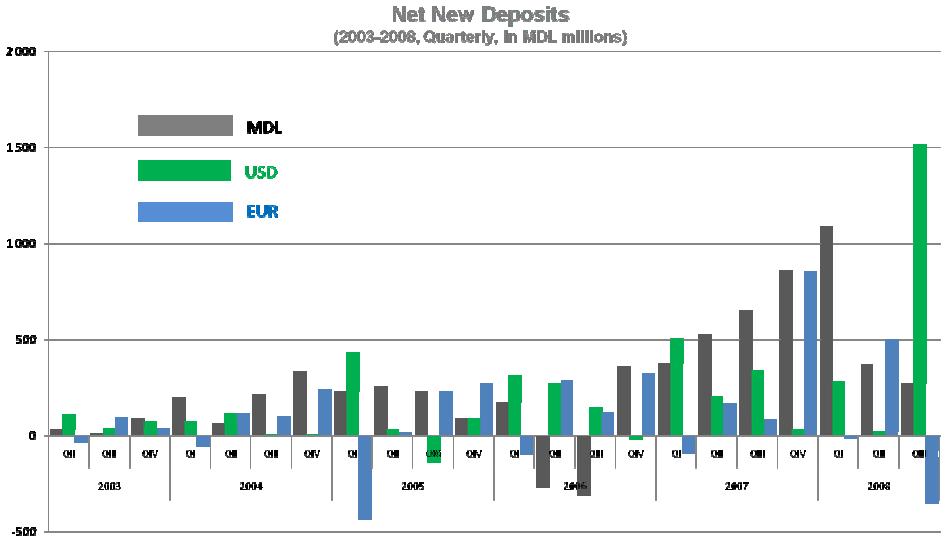
USD 5.9 Trillion + USD 1.2 Trillion

The ¥ Carry Trade

Borrow	Sell	Buy	Deposit
¥	¥ ➡ MDL		MDL Bank
1.0%			20.0%

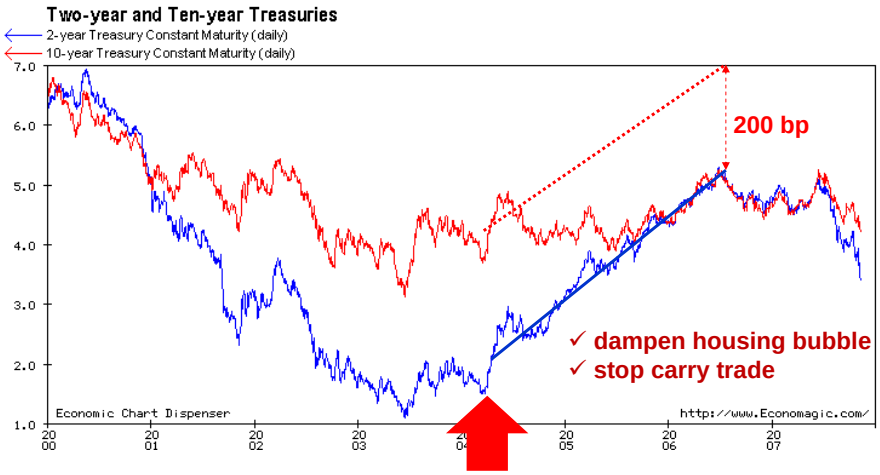
USD/MDL

Internal Carry Trade?



The Systemic Crisis

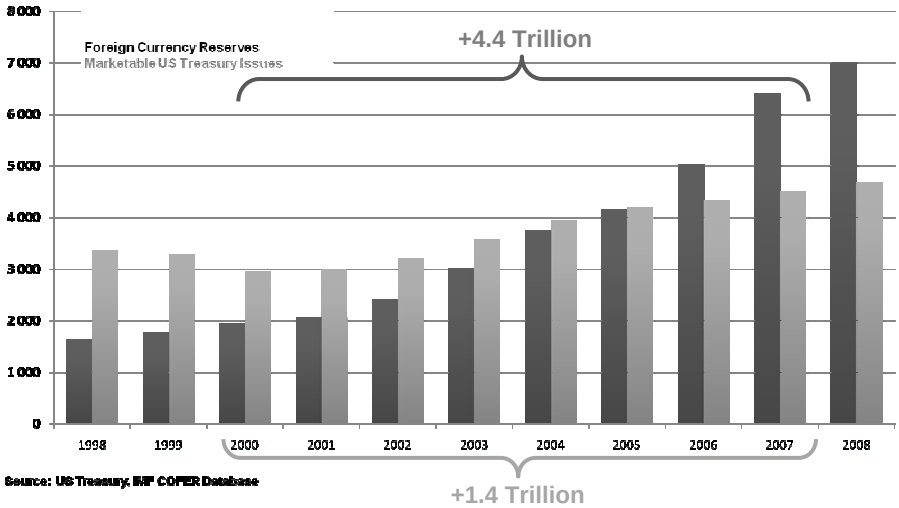
US Federal Reserve Monetary Policy



Greenspan's conundrum

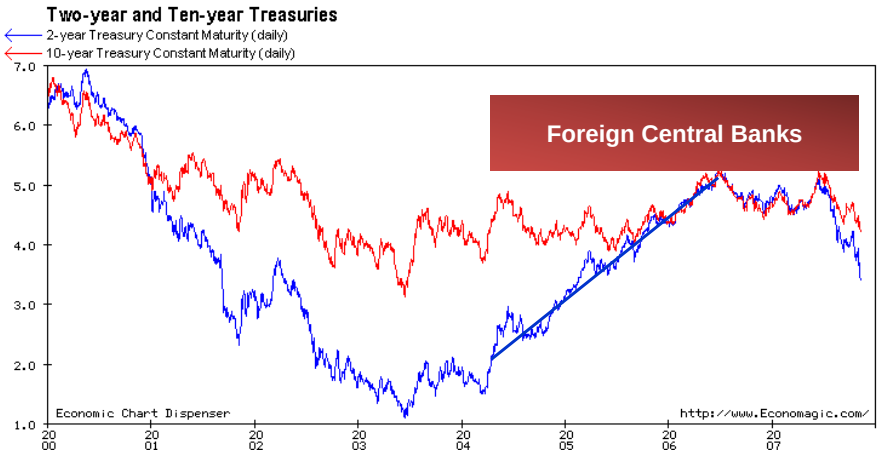
World Foreign Currency Reserves vs Marketable US Treasury Debt

(1998-2008 Q2, EOP, in USD billions)



Source: US Treasury, IMF COFER Database

US Federal Reserve Monetary Policy



Greenspan's conundrum:
foreign central bank purchases **DEFEATED** US monetary policy

45

USAID FROM THE AMERICAN PEOPLE | ACCESS TO CREDIT INITIATIVE MORTGAGES. FIXED INCOME. LEASING.

Thank you.

ATCI