

REPUBLIC OF LITHUANIA

LAW

ON STATE DEBT

22 August 1996 – No I-1508

(As last amended on 23 November 2010 – No XI-1162)

Vilnius

Article 1. Purpose of the Law

This Law shall regulate borrowing by the Government of the Republic of Lithuania (hereinafter referred to as the “Government”) on behalf of the State, management of the obligations assumed when borrowing on behalf of the State, provision of State guarantees, as well as the relations concerning the State’s right of claim in respect of State borrowers and State guaranteed borrowers.

Article 2. Definitions

1. **Financial instrument** shall mean the financial instrument as defined in the Law of the Republic of Lithuania on Markets in Financial Instruments (hereinafter referred to as the “Law on Markets in Financial Instruments”).

2. **Limit for net change in debt liabilities** shall mean the largest possible net change in liabilities over a budget year.

3. **Net change in debt liabilities** shall mean the difference between the amounts of obligations assumed and discharged by the Government when borrowing on behalf of the State over a certain period.

4. **Financial derivatives** shall mean the financial instruments referred to in subparagraphs 4-10 of paragraph 4 of Article 3 of the Law on Markets in Financial Instruments.

5. **Other debt instruments** shall mean the documents attesting to an obligation assumed when borrowing (excluding the obligations assumed under government securities issued, loan agreements, financial lease (leasing) agreements signed, State guarantees provided) to repay the amount of funds indicated in instruments under the terms and conditions agreed upon (specified) in these instruments (commercial paper, promissory notes and bills of exchange, certificates of deposit, etc.).

6. **Loan** shall mean a means of borrowing or lending funds whereby under a loan agreement, one party (the lender) transfers funds into ownership of the other party (the borrower), and the borrower undertakes to repay to the lender the same amount and to pay interest, unless the loan agreement stipulates otherwise. Such a loan agreement shall not cover issuance of securities or signing of other debt instruments.

7. **Debt repayment agreement** shall mean an agreement concluded by the Ministry of Finance of the Republic of Lithuania (hereinafter referred to as the “Ministry of Finance”) representing the Government and a State borrower or a State guaranteed borrower on repayment of a debt to the State arising from the obligations not discharged or inappropriately discharged by these borrowers under an onlent loan agreement or a State guaranteed loan agreement.

8. **Foreign creditors** shall mean the legal or natural persons which have their predominant personal and economic interests in countries other than the Republic of Lithuania, which permanently operate or reside in other countries or operate or reside in Lithuania for a period not exceeding one year and have purchased government securities, granted loans under loan agreements or other debt instruments.

9. **General government** shall mean a sector including the subsectors of central government (the Government and other entities of this sector), local government (municipalities and other entities of this sector) and social security funds (the State Social Insurance Fund, the Compulsory Health Insurance Fund and other entities of this sector). The attribution of entities to subsectors and classification according to sectors shall be established by the Government or an institution authorised by it.

10. **State guarantee** shall mean the property obligation of the State to repay a debt wholly or in part and to pay interest on the debt or part thereof to be repaid to a domestic or foreign creditor for a borrower the discharge of obligations whereof is guaranteed by the State in the event of this borrower’s full or partial default on obligations under a loan agreement or other debt instruments.

11. **State guarantee to an international financial institution** shall mean the property obligation of the State to discharge, under the terms and conditions laid down in a treaty of the Republic of Lithuania or in an agreement entered into on the basis of this treaty, the property obligations under agreements on the loans granted or guaranteed by the international financial institution in the event of the full or partial default of entities of third countries on the obligations stipulated in those loan agreements.

12. **State guarantee for a guarantee institution** shall mean the property obligation of the State to discharge obligations of a guarantee institution guaranteed by the State in respect of credit

institutions of the Republic of Lithuania and foreign states, financial lease (leasing) companies in the event of the guarantee institution's full or partial default on its obligations under the guarantee.

13. **Guarantee institution guaranteed by the State** (hereinafter referred to as a “**guarantee institution**”) shall mean a legal person established by the Government which ensures to credit institutions of the Republic of Lithuania and foreign states, financial lease (leasing) companies the repayment of the loans granted (for the purpose of financing investment and supplementing the working capital) under guarantees to legal persons of the Republic of Lithuania, the branches of enterprises of the European Economic Area States established in the Republic of Lithuania, citizens of the Republic of Lithuania or other persons enjoying the same rights as citizens of the Republic of Lithuania according to the law of the European Union, the payment of the price, or part thereof, specified in agreements on the financial lease (leasing) of the new (unused) industrial equipment and/or new (unused) installations and the discharge of obligations whereof in respect of repayment of a debt wholly or in part and payment of interest on the debt or part thereof to be repaid is guaranteed by the State.

14. **State guaranteed loan** shall mean a loan granted to a legal person of the Republic of Lithuania, a branch of an enterprise of the European Economic Area State established in the Republic of Lithuania or the beneficiary of a state-supported loan referred to in the Law of the Republic of Lithuania on Higher Education and Research (hereinafter referred to as the “Law on Higher Education and Research) under an agreement concluded with a domestic or foreign creditor or under other debt instruments, where the discharge of obligations assumed thereunder in respect of repayment of a debt wholly or in part and payment of interest on the debt or part thereof to be repaid is guaranteed by the State.

15. **Borrower guaranteed by the State** shall mean a legal person of the Republic of Lithuania, a branch of an enterprise of the European Economic Area State established in the Republic of Lithuania or the beneficiary of a state-supported loan referred to in the Law on Higher Education and Research who has received a State guaranteed loan under an agreement, where the discharge of obligations assumed thereunder in respect of repayment of a debt wholly or in part and payment of interest on the debt or part thereof to be repaid is guaranteed by the State.

16. **Loan onlent by the State** (hereinafter referred to as the “**onlent loan**”) shall mean a loan granted to a legal person of the Republic of Lithuania, a branch of an enterprise of the European Economic Area State established in the Republic of Lithuania (except for state and municipal budgetary institutions of the Republic of Lithuania) in accordance with the procedure laid down by the Government from the funds borrowed on behalf of the State.

17. **State debt** shall mean the aggregate amount of the obligations assumed, but not discharged yet by the general government entities entitled to borrowing in respect of the repayment

to creditors of the funds borrowed under government securities issued, loan agreements, financial lease (leasing) agreements signed and other debt instruments.

18. **State borrower** shall mean a legal person of the Republic of Lithuania, a branch of an enterprise of the European Economic Area State established in the Republic of Lithuania which have been granted an onlent loan under an agreement concluded with the State or under other debt instruments and which are under the obligation to the State to appropriately use and repay it and/or which have assumed obligations under loan repayment agreements.

19. **Funds borrowed on behalf of the State** shall mean the funds borrowed, in accordance with the procedure laid down by the Government, by the Ministry of Finance representing the Government and received under government securities issued, loan agreements signed and other debt instruments.

20. **Domestic creditors** shall mean the legal or natural persons that have their predominant personal and economic interests in the Republic of Lithuania, permanently operate or reside in the Republic of Lithuania or operate or reside in other countries for a period not exceeding one year and have purchased government securities, granted loans under loan agreements or other debt instruments.

21. **Government securities** shall mean the securities issued on domestic or foreign markets by the Government on behalf of the State attesting to the right of holder thereof to obtain, within the time limits provided for, an amount corresponding to nominal value thereof, interest or another equivalent.

22. Other concepts used in this Law shall be understood as they have been defined in other laws of the Republic of Lithuania.

Article 3. Basic Provisions of Government Borrowing on Behalf of the State and Provision of State Guarantees

1. A decision concerning the limit for net change in debt liabilities shall be taken, on a proposal of the Government, by the Seimas of the Republic of Lithuania (hereinafter referred to as “the Seimas”) when approving the state budget of a relevant year.

2. Government securities shall be issued, loans on behalf of the State shall be taken, State guarantees shall be provided and obligations under other debt instruments shall be assumed by the Government in compliance with the limits established by laws and in accordance with the procedure laid down in Articles 5 and 6 of this Law.

3. When borrowing on behalf of the State, the Government shall be represented by the Ministry of Finance. The Ministry of Finance shall, in accordance with the procedure laid down by the Government:

1) borrow funds on domestic and foreign markets by taking loans, issuing government securities and other debt instruments;

2) set the characteristics and conditions of issuance of government securities;

3) carry out operations with government securities on domestic and foreign markets.

4. In managing onlent loans, State guarantees and other liabilities, the Government shall be represented by the Ministry of Finance. The Ministry of Finance, by a decision of the Government and in accordance with the procedure laid down by it:

1) shall conclude delegation agreements with the Public Company Turto Bankas on the onlent loans, State guarantees and other property obligations transferred for administration by the Ministry of Finance. The onlent loans, State guarantees and other property obligations transferred to the Public Company Turto Bankas as well as the procedure for administering them shall be laid down by the Government;

2) shall write off the bad onlent loans or debts indicated in Article 11 of this Law;

3) shall transfer, for consideration, a claim for the repayment of onlent loans or debts and discharge of other property obligations related thereto, where application of this measure is feasible in economic terms and application of this measure is in line with the principles of management, use and disposal of state assets;

4) where a State borrower or a State guaranteed borrower increases the authorised capital by additional contributions, may acquire the shares of these borrowers at the issuance price by offsetting their debts to the State, where application of this measure is feasible in economic terms and application of this measure is in line with the principles of management, use and disposal of state assets;

5) exercise other rights established by legal acts to the State as the creditor under agreements on repayment of onlent loans, agreements on debt repayment and under other debt instruments.

5. In managing and administering the obligations assumed by the Government when borrowing on behalf of the State, administering onlent loans, State guarantees and other property obligations, the Government shall be represented by the Ministry of Finance. The Ministry of Finance shall:

1) keep accounts of the funds borrowed and obligations assumed on behalf of the State under government securities issued, loan agreements signed and other debt instruments and draw up sets of financial reports and reports on the implementation of the budget;

2) systematise, accumulate, store and process data on government securities issued, the loans taken on behalf of the State, State guaranteed loans, onlent loans and other obligations under other debt instruments;

3) store originals of agreement on the loans obtained on behalf of the State, onlent loan agreements, State guarantees, debts instruments related to the circulation of government securities and other debt instruments, debt repayment agreements and other documents related to borrowing by the Government on behalf of the State and to management of the obligations assumed when borrowing on behalf of the State;

4) plan the borrowing requirement;

5) after the close of a budget year, co-ordinate with creditors the balance of funds borrowed on behalf of the State;

6) use financial instruments (including derivatives) to manage the obligations assumed by the Government when borrowing on behalf of the State;

7) publish data about State borrowers and State guaranteed borrowers to the extent that this does not contradict provisions of the Republic of Lithuania Law on Legal Protection of Personal Data and the Republic of Lithuania Law on Provision of Information to the Public.

6. The Ministry of Finance or the Public Company Turto Bankas, where this company administers the onlent loans, State guarantees and other property obligations transferred by the Ministry of Finance, shall:

1) arrange the granting of onlent loans and control their distribution, repayment and use and discharge of other financial obligations related to the onlent loans;

2) analyse the financial situation of State borrowers or State guaranteed borrowers;

3) group onlent loans, obligations according to debt repayment agreements and the State guaranteed loans taken by State guaranteed borrowers according to the rules for grouping onlent loans and State guaranteed loans approved by the Minister of Finance;

4) have the right, under the terms and conditions and in accordance with the procedure laid down by the Government, to revise the terms and conditions of repayment of an onlent loan or debt and conclude with the State borrower or the State guaranteed borrower an agreement on amendment of the terms and conditions of the onlent loan or a debt repayment agreement, where it is unfeasible in economic terms to initiate the opening of bankruptcy proceedings or recovery of the debt in accordance with the procedure laid down by the Code of Civil Procedure of the Republic of Lithuania (hereinafter referred to as the "Code of Civil Procedure").

7. All possible financial resources of the State, including new property obligations of the State, shall be employed to discharge all property obligations arising from the relations regulated by this Law and assumed by the Government.

8. Existing and future assets of the State may not be pledged in order to secure the discharge of property obligations of the State, with the exception of the cases when government securities shall be pledged under repurchase agreements and when financial collateral is provided

using financial derivatives for the purpose of managing the obligations assumed by the Government when borrowing on behalf of the State.

9. The gold and foreign currency reserves of the Bank of Lithuania may not be pledged in order to secure the discharge of property obligations of the State.

10. The Government may use the funds borrowed on behalf of the State only for the purposes indicated in this Law.

11. The Government shall have the right to grant onlent loans, with the exception of the cases when funds are obtained under the loan agreements stipulating otherwise. Onlent loan agreements with State borrowers shall be signed by the Minister of Finance or a person authorised by him.

12. The procedure for granting onlent loans and State guarantees, repaying the onlent loans granted and administering State guarantees shall be laid down by the Government.

13. Until property obligations have been fully discharged and without a written authorisation issued by the Ministry of Finance or the Public Company Turto Bankas, where this company administers the onlent loans, State guarantees and other property obligations transferred by the Ministry of Finance, as well as not having agreed upon the terms and conditions of the carrying out of these actions, State borrowers or State guaranteed borrowers, with the exception of credit institutions of the Republic of Lithuania and foreign states, the beneficiaries of state-supported loans referred to in the Law on Higher Education and Research and municipalities, shall not have the right to:

- 1) reorganise a legal person;
- 2) reduce the authorised capital;
- 3) sell or otherwise transfer, lease or ledge fixed assets;
- 4) stand surety for or guarantee with their assets the discharge of obligations of other entities;
- 5) grant loans (with the exception of a consumer loan);
- 6) invest assets in other economic entities;
- 7) assume new obligations through issuing debt securities, signing loan agreements, financial lease (leasing) agreements or other debt instruments.

14. The restrictions established by the Republic of Lithuania Law on Companies and related to prohibition for companies to ledge their assets to shareholders when borrowing from the shareholders as well as restriction on the annual interest rate shall not apply to the relations regulated by this Law.

Article 4. Purposes of Government Borrowing on Behalf of the State and Provision of State Guarantees

1. The Government may borrow on behalf of the State for the following purposes:

- 1) to finance the deficit of the State budget as well as to balance state cash flows;
- 2) to finance state investments earmarked in the State budget;
- 3) to grant onlent loans used to finance state investment projects;
- 4) to cover the State debt, also to accumulate the financial resources used to cover the State debt;
- 5) to cover the debt liabilities of state social security funds as well as to balance the cash flows of these funds;
- 6) to discharge the guarantee obligations assumed by the State under the State guarantees granted;
- 7) to achieve the goals stipulated in the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the corresponding year and other goals, where a separate law has been passed to this end.

2. The Government may, on behalf of the State, provide a State guarantee for:

- 1) the loans used to finance state investment projects;
- 2) the loans used for implementing the objectives set in the Law of the Republic of Lithuania on Financial Sustainability;
- 3) the state-supported loans referred to in the Law on Higher Education and Research. The provisions of Article 9 of this Law shall not apply to the persons indicated in this subparagraph;
- 4) the loans taken by a legal person of the Republic of Lithuania or a branch of an enterprise of the European Economic Area State established in the Republic of Lithuania, where such loans are taken for the purpose of refinancing an onlent loan or a State guaranteed loan.

3. The Government may, on behalf of the State, grant a State guarantee to an international financial institution under treaties of the Republic of Lithuania or the agreements entered into with the international financial institution on the basis of these treaties.

4. A guarantee institution may grant guarantees for:

- 1) the loans taken from credit institutions of the Republic of Lithuania and foreign states and used to finance investments;
- 2) the loans taken from credit institutions of the Republic of Lithuania and foreign states and used to supplement the working capital;
- 3) the payment of the price, or part thereof, of the new (unused) industrial equipment and/or new (unused) installations specified in agreements on the financial lease (leasing) of the

new (unused) industrial equipment and/or new (unused) installations concluded with financial lease (leasing) companies.

Article 5. Borrowing on Behalf of the State

1. A decision on borrowing on behalf of the State shall be adopted by the Ministry of Finance representing the Government for the purposes specified in paragraph 1 of Article 4 of this Law without exceeding the limit for net change in debt liabilities approved by the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the corresponding year.

2. The Ministry of Finance representing the Government must, when borrowing on behalf of the State and managing the obligations assumed when borrowing on behalf of the State, ensure the financing of state expenditure stipulated in laws of the Republic of Lithuania and discharge of the assumed debt liabilities with borrowed funds at minimum cost and with acceptable risk over the medium-term period.

3. Agreements on the loans taken on behalf of the State, the instruments related to the distribution of government securities, transactions in financial derivatives and other debt instruments shall be commercial arrangements. The agreements on the loans taken on behalf of the State, the instruments related to the distribution of government securities or to transactions in financial derivatives or other debt instruments shall be signed by the Minister of Finance. The agreements on the loans taken on behalf of the State, the instruments related to the distribution of government securities, transactions in financial derivatives and other debt instruments may be signed by the civil servants authorised by a resolution of the Government on a proposal of the Minister of Finance.

4. A legal opinion made available at the request of a creditor regarding a loan taken on behalf of the State or other debt instruments as well as regarding other legal instruments related to state borrowing, and a legal opinion made available at the request of the distributor of government securities regarding the instruments related to the distribution of the government securities shall be signed by the Minister of Justice or a person authorised by him.

5. The funds borrowed on behalf of the State shall be obtained and repaid through a fiscal agent of the State – the Bank of Lithuania or another bank.

6. The Ministry of Finance shall have the right, in accordance with the procedure laid down by legal acts, to select a fiscal agent to carry out operations with government securities. Subject to consent of the Ministry of Finance, the fiscal agent may lay down the procedure for carrying out these operations.

Article 6. State Guarantees

1. A decision to grant a State guarantee to a loan which exceeds LTL 40 million shall be taken by the Seimas on a proposal of the Government.

2. A decision to grant a State guarantee to a loan which does not exceed LTL 40 million and a decision to grant a State guarantee to an international financial institution shall be taken by the Government pursuant to the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the corresponding year, treaties of the Republic of Lithuania or the agreements signed on the basis of these treaties or other laws.

3. A State guarantee, a State guarantee to an international financial institution and an agreement drafted on the basis of a treaty of the Republic of Lithuania shall be signed by the Minister of Finance, whereas a legal opinion concerning the guarantee granted shall be signed, at the request of a creditor, by the Minister of Justice or a person authorised by him.

4. A guarantee fee shall be required for a State guarantee granted from a State guaranteed borrower, with the exception of municipalities, state social security funds and the beneficiaries of a state-supported loan referred to in the Law on Higher Education and Research. The amount of the guarantee fee and rules of payment thereof shall be established by the Government. The amount of the guarantee fee shall be determined taking into consideration the strategic importance of the State guaranteed borrower with regards to the State, the significance of a state investment project under implementation or of the objective financed by a State guaranteed loan, the amount of the State guaranteed loan taken and other criteria specified by the Government, unless laws of the Republic of Lithuania stipulate otherwise.

5. Property obligations of the State under State guarantees shall become a State debt where bankruptcy or restructuring proceedings have been opened against a State guaranteed borrower, it is in liquidation or has been liquidated, where a composition with creditors as indicated in the Republic of Lithuania Enterprise Bankruptcy Law (hereinafter referred to as “the Enterprise Bankruptcy Law”) is concluded with this borrower and in other cases when the State systematically discharges its obligations under a guarantee in respect of the State guaranteed borrower.

Article 7. State Loan Commission

1. The State Loan Commission shall be formed by the Government. The State Loan Commission shall submit proposals to the Government regarding:

1) the granting of onlent loans to finance state investments, cover the debt liabilities of state social security funds and balance the cash flows of these funds, renovation of the immovable property of the State, the granting of State guarantees specified in subparagraphs 1, 2 and 4 of

paragraph 2 and paragraph 3 of Article 4 of this Law to finance state investments, also amending the terms and conditions of such State guarantees;

2) capitalisation of the onlent loans granted under onlent loan agreements and debt liabilities under other debt instruments, transfer of claims for consideration, transfer of a debt, exemption of a State borrower from the payment of late payment interest calculated, but not paid and suspension of calculation of late payment interest, exemption from the payment of a difference in exchange rates;

3) exercise of other rights established by legal acts to the State as the creditor under onlent loan agreements and under other debt instruments.

2. The State Loan Commission shall consider and submit to the Ministry of Finance proposals concerning amendments to the terms and conditions of repayment of the onlent loans granted, where the terms and conditions of granting or repayment of onlent loans specified in legal acts are to be amended, also conclusion of debt repayment agreements or amendments to the terms and conditions thereof, the expediency of opening of bankruptcy or restructuring proceedings.

3. The composition of the State Loan Commission shall be approved by the Government.

4. The rules of procedure of the State Loan Commission shall be established by the Government or an institution authorised by it.

Article 8. Establishment of Guarantee Institutions and State Guarantee for a Guarantee Institution

1. The Government shall have the right to establish guarantee institutions which would ensure to credit institutions of the Republic of Lithuania and foreign states, financial lease (leasing) companies the repayment of the loans granted under guarantees to legal persons of the Republic of Lithuania, the branches of enterprises of the European Economic Area States established in the Republic of Lithuania or citizens of the Republic of Lithuania or other persons enjoying the same rights as citizens of the Republic of Lithuania according to the law of the European Union and the payment of the price, or part thereof, specified in agreements on the financial lease (leasing) of the new (unused) industrial equipment and/or new (unused) installations, where funds are allocated for the implementation of certain programmes in the State budget of that year or State funds.

2. The State shall guarantee the discharge of a guarantee institution's obligations under guarantees in respect of credit institutions of the Republic of Lithuania and foreign states and financial lease (leasing) companies. The Government shall annually establish limits on obligations under guarantees for each guarantee institution. These limits may not exceed a limit established in the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of the relevant year.

3. Guarantees of a guarantee institution shall be signed by the head of the guarantee institution in accordance with the procedure laid down by the Government. The obligations of the guarantee institutions established by the State under guarantees in respect of credit institutions of the Republic of Lithuania and foreign states and financial lease (leasing) companies shall be held equal to a State guarantee.

4. A guarantee institution shall, in implementing the programmes carried out by the State, consider in accordance with the procedure laid down by the Government the applications of legal persons of the Republic of Lithuania, the branches of enterprises of the European Economic Area States established in the Republic of Lithuania or citizens of the Republic of Lithuania or other persons enjoying the same rights as citizens of the Republic of Lithuania according to the law of the European Union for ensuring the repayment of loans to credit institutions of the Republic of Lithuania and foreign states which grant the loans to the former (for the purpose of financing investment and supplementing the working capital) and the payment of the price, or part thereof, of the new (unused) industrial equipment and/or new (unused) installations to financial lease (leasing) companies financing the acquisition of the new (unused) industrial equipment and/or new (unused) installations, keep accounts of the guarantees granted, control compliance with the terms and conditions of the guarantees, and impose sanctions on the borrowers, credit institutions of the Republic of Lithuania and foreign states and financial lease (leasing) companies which fail to observe the terms and conditions of the guarantees.

5. Activities of a guarantee institution shall be supervised and reporting of this institution shall be established by an institution authorised by the Government.

6. A guarantee institution must, not later than within four months after the close of the financial year, submit to the Government a set of annual financial statements of an undertaking and the auditor's report.

7. Where losses of a guarantee institution amount to one fourth of the authorised capital, the Government must suspend the provision of new guarantees.

Article 9. Control of Financial Activities of State Borrowers and State Guaranteed Borrowers

1. The persons wishing to receive an onlent loan or a State guarantee in respect of a loan taken to finance an investment project must submit to the Ministry of Finance the documents specified by the Government.

2. State borrowers and State guaranteed borrowers must submit to the Ministry of Finance or to the Public Company Turto Bankas, where this company administers the onlent loans, State guarantees and other debt instruments transferred by the Ministry of Finance, annual economic and

financial activity reports, the auditor's report concerning the annual performance during the period of the utilisation of an onlent loan or a State guaranteed loan, the auditor's report for another period at the request of this ministry or the Public Company Turto Bankas as well as information about existing and newly opened accounts with credit institutions of the Republic of Lithuania and foreign states and changes in the accounts of the credit institutions of the Republic of Lithuania and foreign states and other requisites indicated in agreements.

3. Payment for audit services shall be effected from the funds of a State borrower or a State guaranteed borrower.

4. State and municipal control institutions and establishments (hereinafter referred to as "control institutions and establishments") shall, in accordance with the procedure laid down by legal acts, verify the economic and financial position of state borrowers and State guaranteed borrowers as well as the granting of onlent loans and State guarantees, use of the onlent loans according to their purpose and repayment thereof.

5. A borrower or a State borrower must submit to the Ministry of Finance or to the Public Company Turto Bankas, where this company administers the onlent loans, State guarantees and other liabilities transferred by the Ministry of Finance, audit firms, control institutions and establishments the documents required by them within the time limits laid down by them, with the exception of the documents the procedure for submitting whereof shall be laid down by the Government.

Article 10. Legal Consequences of Default on Obligations

1. Late payment interest shall be charged for each day of delay in the case of a delay in the discharge of the property obligations specified in onlent loan or debt repayment agreements. The amount of late payment interest shall be calculated on the basis of the weighted average of the annual interest rate for Treasury bills of the Republic of Lithuania issued in litas by auction in the previous calendar quarter, which under agreements may not be increased by more than 10 percentage points, divided by 360. The Government or, in the case of the state-supported loans referred to in the Law on Higher Education and Research, an institution or establishment authorised by it shall have the right to exempt a State borrower from the payment of the late payment interest which has been calculated, but has not been paid for the onlent loans or debts not repaid on time and unpaid interest or to suspend the calculation of late payment interest in respect of a State borrower or a State guaranteed borrower as well as to exempt these borrowers from the payment of an unpaid difference in exchange rates which was calculated when they failed to keep to a time limit laid down for the discharge of an obligation and after the expiry of this time limit – where a currency in which the payment must be made devaluated due to a change in exchange

rates. The conditions of exemption from the payment of late payment interest and from the payment of a difference in currency exchange rates as well as conditions of suspension of the calculation of late payment interest shall be as follows:

1) a State borrower or a State guaranteed borrower is unable to pay the entire debt, including late payment interest and/or difference in exchange rates, but, having regard to the possibilities, costs of recovery of debt and potential detrimental effects of forced recovery of debt at the national or regional level and subject to exemption of the State borrower or the State guaranteed borrower from the payment of the late payment interest, or part thereof, which has been calculated, but has not been paid and/or from the payment of the unpaid difference in exchange rates, he undertakes to pay the remaining part of the debt and, if possible, provides debt repayment security instruments;

2) the State borrower or the State guaranteed borrower – a natural person as well as a farmer, owner of an individual enterprise or member of a partnership – is in a difficult economic (social) situation. The criteria according to which it is determined that the State borrower or the State guaranteed borrower – a natural person as well as a farmer, owner of an individual enterprise or member of a partnership – is in a difficult economic (social) situation shall be specified by the Government or an institution authorised by it.

2. The Ministry of Finance or, in the case of the state-supported loans referred to in the Law on Higher Education and Research, an institution or establishment authorised by the Government shall have the right to recover from a State borrower or a State guaranteed an onlent loan or debt or part thereof which has not been repaid on time, unpaid interest, late payment interest, a difference in exchange rates or other payments provided for under agreements as well as the expenses incurred by the State and related to the filing of a claim for the discharge of an obligation. Where a State guaranteed borrower fails to discharge contractual obligations, as a result whereof the State, as the guarantor, has to discharge them, the Ministry of Finance or, in the case of the state-supported loans referred to in the Law on Higher Education and Research, an institution or establishment authorised by the Government shall acquire the right of recourse against the State guaranteed borrower. Where a State borrower or a State guaranteed borrower has failed to keep to a time limit laid down for the discharge of an obligation, and a currency in which the payment must be made devaluated after the expiry of this time limit due to a change in exchange rates, these borrowers must pay to the Ministry of Finance or, in the case of the state-supported loans referred to in the Law on Higher Education and Research, an institution or establishment authorised by the Government a difference between the exchange rate at the time of expiry of the time limit for the discharge of the obligation and the exchange rate at the time of payment. Decisions of the Ministry of Finance regarding the recovery of a debt from a State

borrower or a State guaranteed borrower shall be passed to bailiffs in accordance with the procedure laid down by the Code of Civil Procedure.

3. Where the Public Company Turto Bankas administers the onlent loans, State guarantees and other property obligations transferred by the Ministry of Finance, it shall have the right to take over into ownership of the State the assets of a State borrower or a State guaranteed borrower or of third parties, where they have not been realised in accordance with the procedure laid down by the Code of Civil Procedure and/or the Enterprise Bankruptcy Law, and to administer and realise them in order to discharge all property obligations of the borrowers as well as to compensate for the expenses incurred by the State and by the Public Company Turto Bankas and related to the filing of a claim for the discharge of the obligation.

4. Where a State borrower or a State guaranteed borrower fails to timely discharge property obligations under agreements or where a security for the discharge of an obligation is insufficient, the Ministry of Finance or the Public Company Turto Bankas, where this company administers the onlent loans, State guarantees and other property obligations transferred by the Ministry of Finance, may request that these borrowers provide additional security for the discharge of the obligation.

5. Where a State borrower or a State guaranteed borrower fails to timely discharge property obligations and it is unfeasible in economic terms to amend the terms and conditions of repayment of an onlent loan and/or debt in respect of this borrower or to take and order the execution of a decision of the Ministry of Finance to recover the debt, the Ministry of Finance or the Public Company Turto Bankas, where this company administers the onlent loans, State guarantees and other property obligations transferred by the Ministry of Finance, shall have the right to apply, in accordance with the procedure laid down by legal acts, to a court for the opening of bankruptcy proceedings against the State borrower or the State guaranteed borrower.

Article 11. Acknowledgement of Onlent Loans or Debts as Bad

1. A bad onlent loan or debt may be a loan or debt or part thereof not repaid by a State borrower or a State guaranteed borrower, unpaid interest, late payment interest and other property obligations which is it impossible or unfeasible to recover for the following reasons:

1) in the event of the State borrower's or the State guaranteed borrower's decease, there are no successors who could assume State borrower's or the State guaranteed borrower's property obligations to the State (in the case of the state-supported loans referred to in the Law on Higher Education and Research – in the event of decease of the beneficiary of a state-supported loan); the State borrower or the State guaranteed borrower goes into liquidation;

2) a composition is concluded with the State borrower or the State guaranteed borrower as indicated in the Enterprise Bankruptcy Law or these borrowers' restructuring proceedings are closed in accordance with the procedure laid down by the Law of the Republic of Lithuania on Restructuring of Enterprises;

3) where, upon transfer for consideration of a claim to repay onlent loans or debts and to discharge other property obligations related thereto, the amount obtained is less than the onlent loan or the debt, the remaining part of the onlent loan or debt which has not been obtained shall be acknowledged as bad;

4) after the expiry of more than one year since the commencement of actions of recovery, no assets of the State borrower or the State guaranteed borrower are identified or the assets identified are non-liquid (they cannot be realised) or where the assets identified are sufficient only to cover a part of the debt, the remaining part of the debt shall be acknowledged as bad;

5) the State borrower or the State guaranteed borrower – a natural person as well as a farmer, owner of an individual enterprise or member of a partnership – is in a difficult economic (social) situation. The circumstances attesting to a difficult economic (social) situation must be supported by the documents issued by competent authorities.

2. A decision on acknowledgement of an onlent loan or debt as bad shall, on the proposal of the Ministry of Finance, be adopted by the Government or, in the case of the state-supported loans referred to in the Law on Higher Education and Research, an institution or establishment authorised by the Government.

3. An onlent loan or debt acknowledged as bad on the grounds specified in subparagraphs 1, 2 and 3 of paragraph 1 of this Article shall expire and be written off from relevant accounting documents.

4. An onlent loan or debt acknowledged as bad on the grounds specified in subparagraphs 4 and 5 of paragraph 1 of this Article shall, in accordance with the procedure laid down by the Government or an institution authorised by it, be audited, namely, possibilities of recovery thereof shall be reviewed, the financial position of borrowers shall be analysed, and identification of assets shall be carried out. Upon establishing possibilities of the recovery of an onlent loan or debt (or part thereof), recovery shall be executed in accordance with the procedure laid down by laws of the Republic of Lithuania.

5. The procedure for writing off, accounting for as well as auditing bad onlent loans or debts shall be laid down by the Government or an institution authorised by it.

Article 12. Reporting

1. After the close of the budgetary year, the Government must submit to the Seimas, together with an annual set of reports on the implementation of the State budget, reports on the State debt as well as the onlent loans granted and State guarantees provided. The forms of reports complying with provisions of this Law and the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the corresponding year shall be established by the Minister of Finance.

2. The National Audit Office shall assess the reports on the State debt, the onlent loans and State guarantees provided as drawn up by the Government and, together with a conclusion on an annual set of reports on the implementation of the State budget, shall submit to the Seimas a conclusion on the State debt, the onlent loans granted and State guarantees provided.