

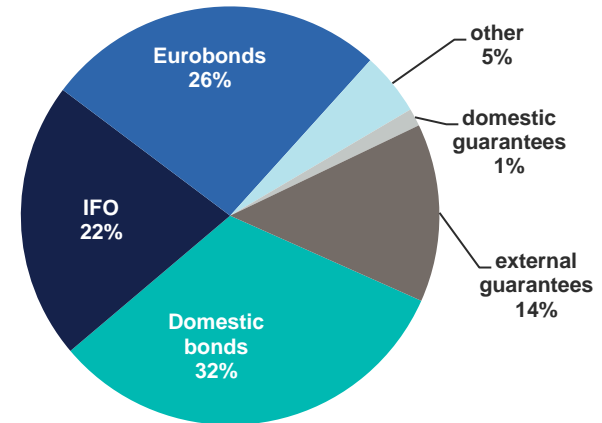
Overview of Ukrainian bond market

Central government debt structure

- Domestic bonds are only 32.2% of total debt outstanding

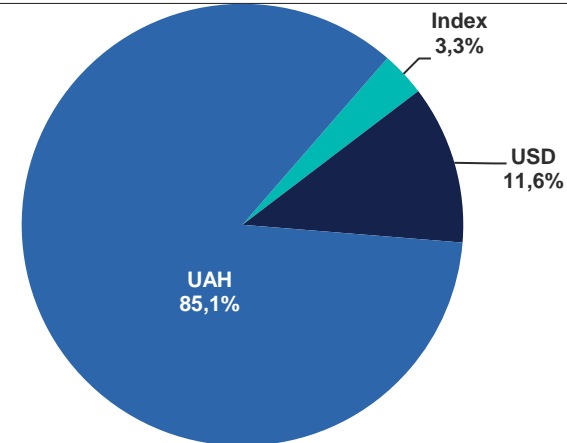
- Domestic bonds structure:
 - 85.1% denominated in local currency
 - 3.3% index bonds, index calculated as UAH/USD exchange rate change
 - 11.6% - FX-denominated bonds

Structure by debt type



Source: Ministry of Finance of Ukraine, ICU

Structure of domestic bonds issues



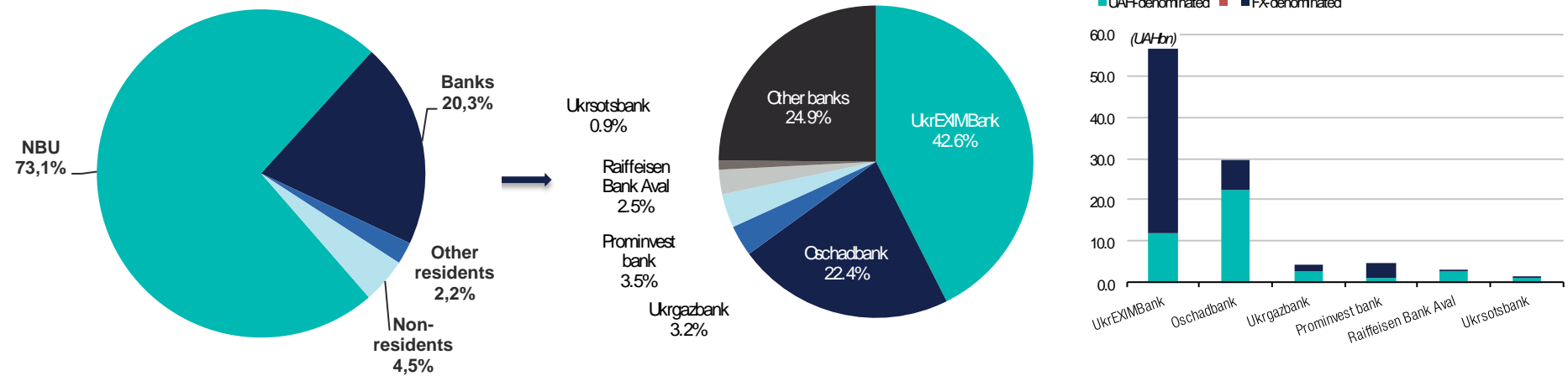
Source: Ministry of Finance of Ukraine, ICU

Domestic Bondholders' structure

Bondholders' structure

Banks, the largest bondholders

Structure of bonds in portfolios

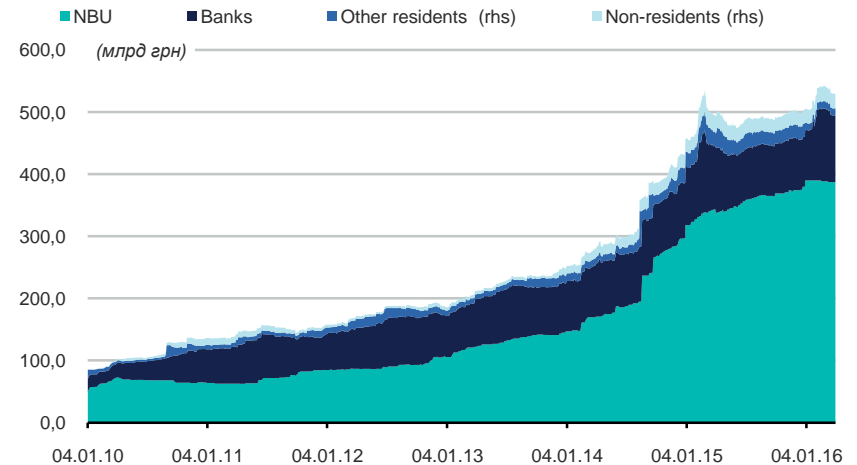


- Total volume of government bonds outstanding was UAH530bn
- The NBU holds 73% of domestic bonds
- State-owned banks (UkrEximbank and Oschadbank) are the largest bondholders in the banking sector, 42.6% and 22.9% respectively
- Only about UAH70bn of bonds are available for secondary market trading
- Only 27 out of 265 bond issues are currently tradable, including about UAH30bn of bonds denominated in local currency and US\$1.34bn of bonds denominated in FX

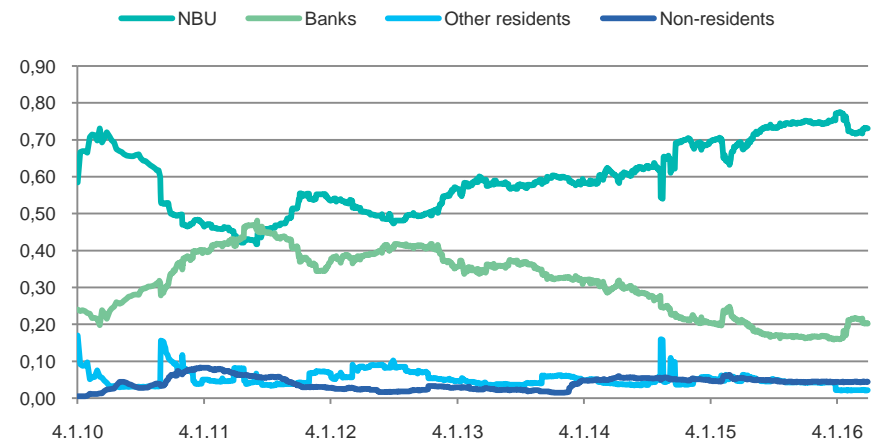
Dynamic of Domestic Bondholders' structure

- Size of domestic bond market increased more than 5 times since 2010 in local currency
- In USD equivalent, total size of bonds is up just over 60%
- Share of NBU holdings at historic high
- Share of bank holdings steadily declining since 2011
- Share of non-resident holders is floating between 1% and 9%. Similar dynamic with resident holders, however slightly more volatile

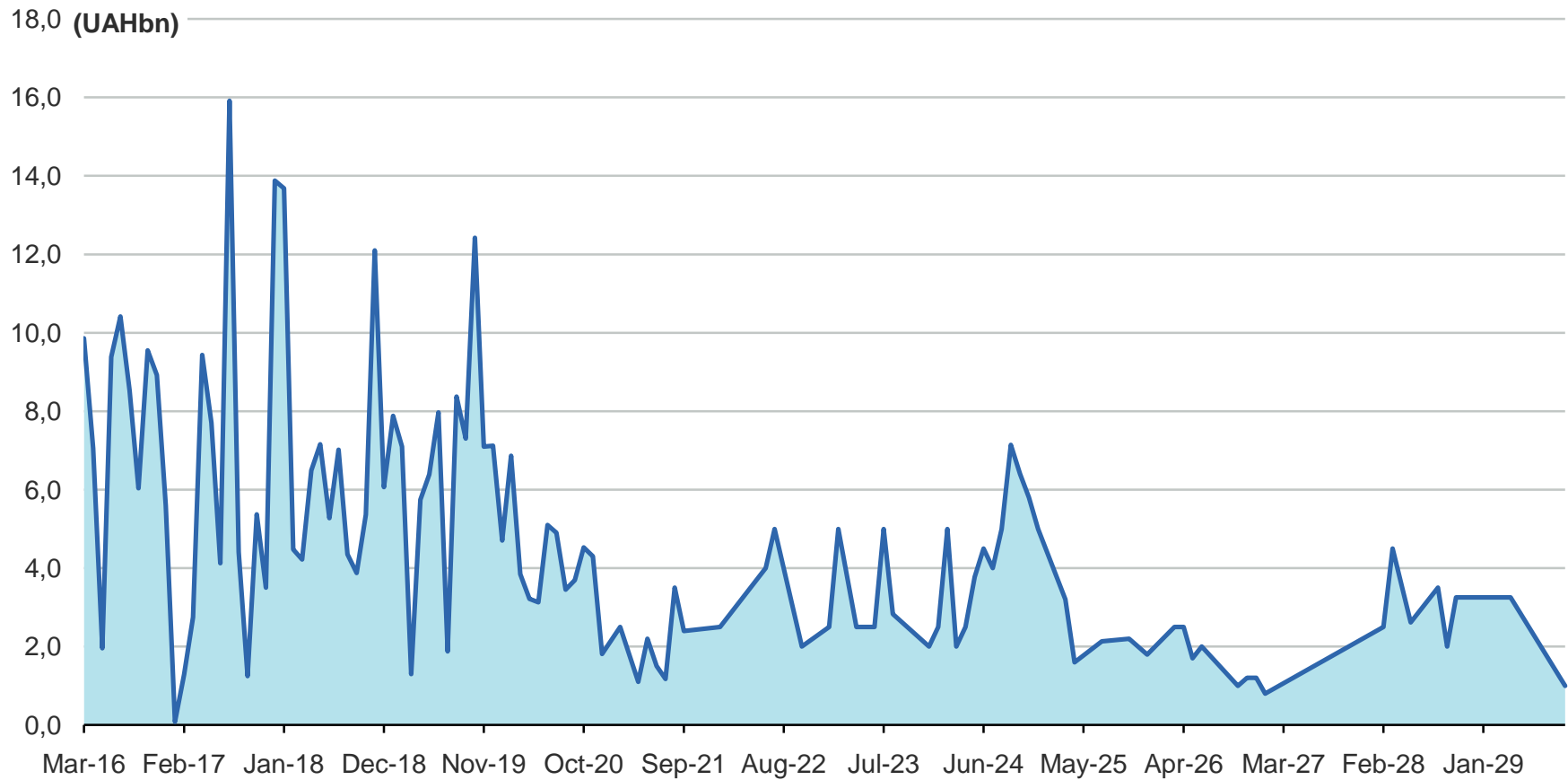
Holders of domestic bonds



Share of each group of holders



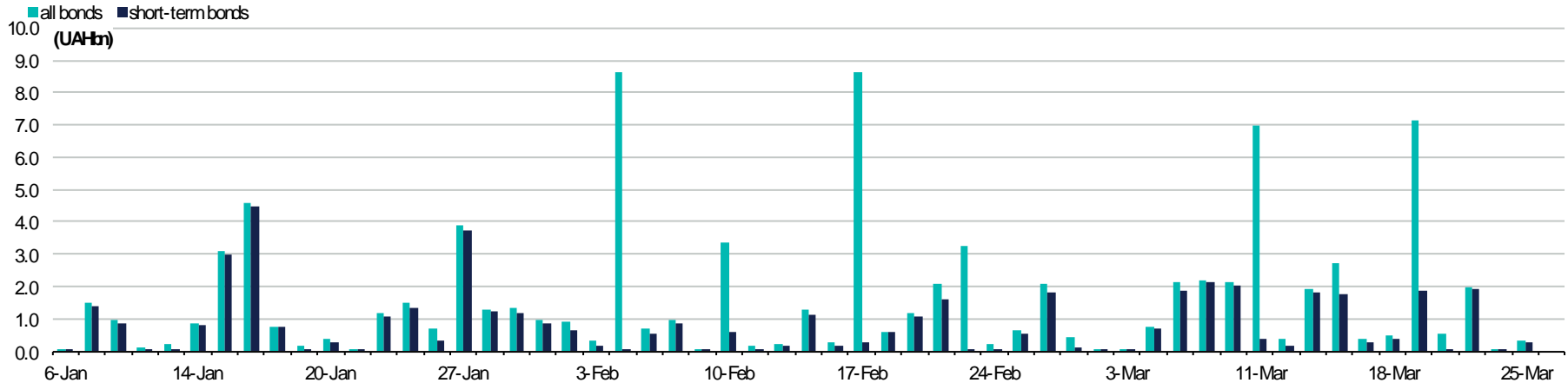
Schedule of domestic bonds redemption UAHbn



Source: Ministry of Finance of Ukraine

Domestic secondary market trading, 2015

Volume of all deals at secondary market (UAH billion)



Source: NBU

- Secondary market volumes include deals with the NBU
- Short-term bonds (with maturity under one year) are the main part of secondary market trading (excluding deals with the NBU)
- Spiky volumes create uneven trend

Tradable bonds and recent ICU market quotes

Local-currency bonds

BID					ASK				
ISIN	Maturity	%	Yield	Volume	ISIN	Maturity	%	Yield	Volume
					UA4000180582	27.04.2016	19.00%	SIM	0.1-0.5m
UA4000181275	01.06.2016	20.50%	SIM	0.1-10m	UA4000181275	01.06.2016	19.00%	SIM	0.1-10m
UA4000184352	15.06.2016	20.50%	SIM	0.1-10m					
UA4000180400	19.04.2017	22.00%	YTM	0.1-10m	UA4000180400	19.04.2017	19.25%	YTM	0.1-20m
UA4000192652	19.07.2017	22.00%	YTM	0.1-10m					
UA4000192637	10.01.2018	22.00%	YTM	0.1-10m	UA4000192637	10.01.2018	19.80%	YTM	0.1-10m
UA4000192660	23.01.2019	22.00%	YTM	0.1-10m	UA4000192660	23.01.2019	20.00%	YTM	0.1-10m
UA4000185151 (VAT-I new)	02.07.2019	21.00%	YTM	0.1-10m	UA4000185151 (VAT-I new)	02.07.2019	20.00%	YTM	0.1-20m
UA4000185557 (VAT-II new)	22.07.2019	21.00%	YTM	0.1-10m	UA4000185557 (VAT-II new)	22.07.2019	20.00%	YTM	0.1-20m
UA4000186159 (VAT-III new)	14.08.2019	21.00%	YTM	0.1-10m	UA4000186159 (VAT-III new)	14.08.2019	20.00%	YTM	0.1-10m
UA4000186928 (VAT-IV new)	30.09.2019	21.00%	YTM	0.1-10m					
UA4000188551 (VAT-V new)	23.12.2019	21.00%	YTM	0.1-10m					

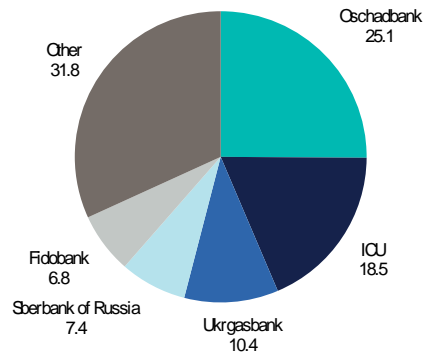
USD-denominated bonds

BID						ASK					
ISIN	Maturity	%	Yield	Rate	Volume	ISIN	Maturity	%	Yield	Rate	Volume
UA4000166847	25.05.2016	5.00%	SIM	26.00	0.1-1m	UA4000166847	25.05.2016	2.00%	SIM	27.50	0.1-0.5m
UA4000192611	05.07.2017	8.00%	YTM	26.00	0.1-1m	UA4000192611	05.07.2017	7.00%	YTM	27.50	0.1-0.5m
UA4000192744	31.01.2018	8.00%	YTM	26.00	0.1-1m	UA4000192744	31.01.2018	7.00%	YTM	27.50	0.1-0.5m

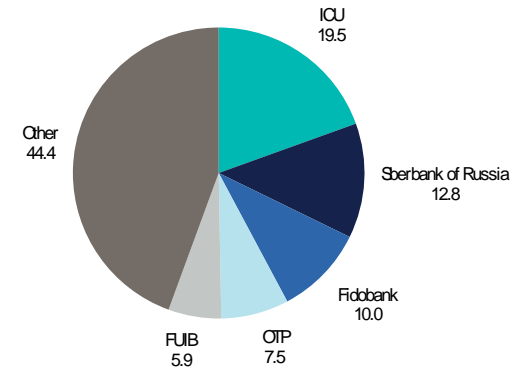
- Upward slopping yield curve. We expect yield to go down together with inflation

Rankings of domestic bond traders, 2014 (Cbonds)

By notional



By volume



Biggest traders by notional traded

1. Oschadbank – 25.10%
2. ICU – 18.50%
3. Ukgasbank – 10.43%
4. Sberbank of Russia – 7.40%
5. Fidobank – 6.75%

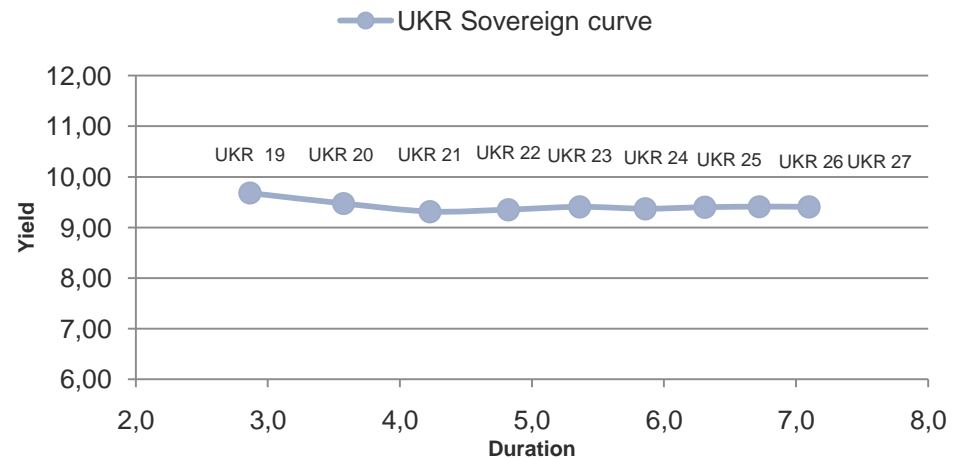
Biggest trades by volume

1. ICU – 19.49%
2. Sberbank of Russia – 12.75%
3. Fidobank – 9.97%
4. OTP – 7.51%
5. FUIB – 5.87%

Sovereign Eurobonds

Issue	Modified duration	Price (bid)	Price (ask)	Bid/Offer spread	YTM (ask)	Z-Spread (ask)	Ratings S&P	Ratings Fitch	Amount Outstanding
UKRAIN 7 3/4 09/01/19	2,9	93,78	94,52	0,74	9,68	870	B-	CCC	1646
UKRAIN 7 3/4 09/01/20	3,6	93,09	93,92	0,83	9,47	840	B-	CCC	1707
UKRAIN 7 3/4 09/01/21	4,2	92,65	93,48	0,83	9,31	814	B-	CCC	1378
UKRAIN 7 3/4 09/01/22	4,8	91,59	92,42	0,83	9,35	809	B-	CCC	1355
UKRAIN 7 3/4 09/01/23	5,4	90,49	91,31	0,82	9,41	807	B-	CCC	1330
UKRAIN 7 3/4 09/01/24	5,9	89,61	90,72	1,11	9,37	796	B-	CCC	1315
UKRAIN 7 3/4 09/01/25	6,3	88,72	89,85	1,14	9,40	791	B-	CCC	1306
UKRAIN 7 3/4 09/01/26	6,7	88,31	89,13	0,82	9,41	788	B-	CCC	1295
UKRAIN 7 3/4 09/01/27	7,1	87,82	88,56	0,74	9,41	783	B-	CCC	1286
UKRAIN 0 05/31/40	-	31,40	32,85	1,45	-	-	B-	-	3130

- Slightly inverted, almost flat curve
- 12.6 bn size of the nominal value
- 11.6 bn size of net value
- Liquidity remains an issue
- UKR 19 followed by UKR 26 & 27 are the most liquid issues
- Bid/Offer spread indicates level of liquidity

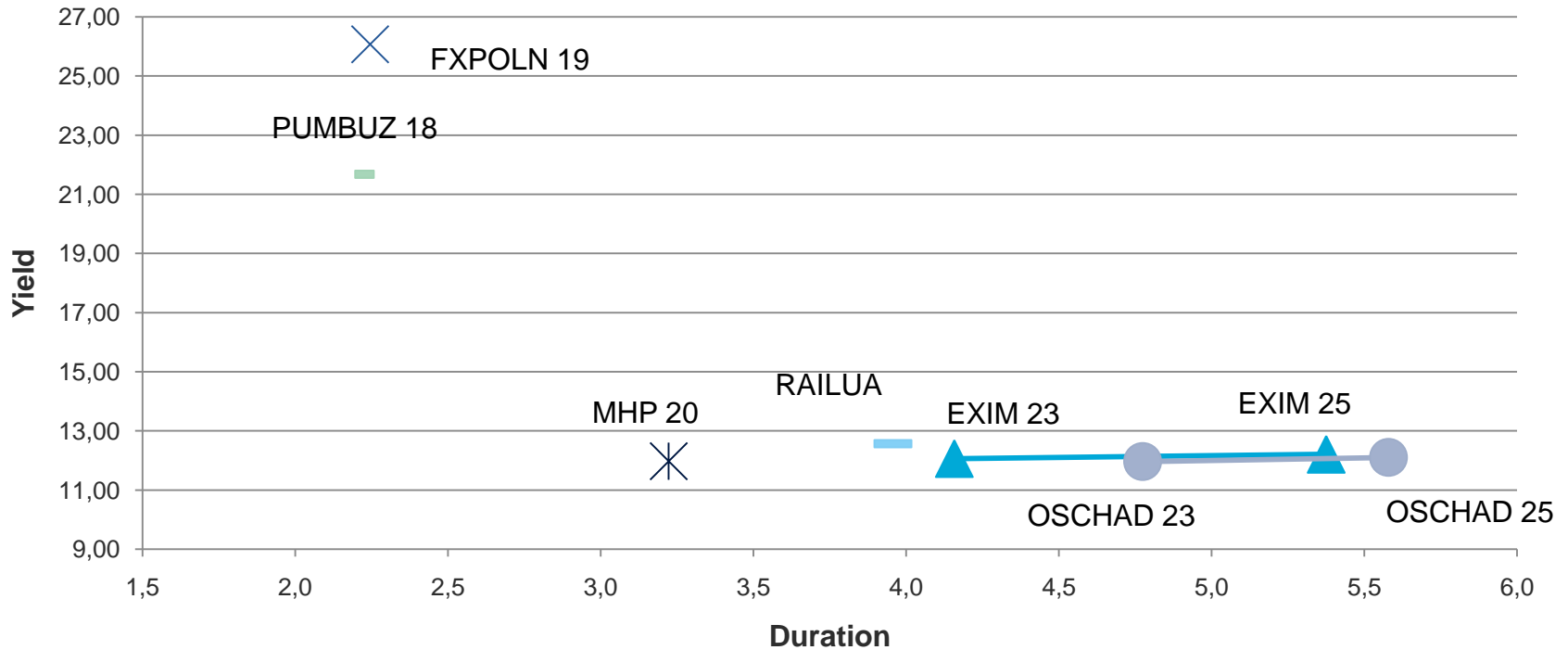


Corporate Eurobonds

Issue	Modified duration	Price (bid)	Price (ask)	Bid/Offer spread	YTM (ask)	Z-Spread (ask)	Ratings Fitch	Amount Outstanding	Industry
AVINPU 10 10/29/18	1,7	37,50	40,50	3,00	54,93	-	WD	206	Food
DTEKUA 10 3/8 03/28/18	1,3	40,41	42,91	2,49	67,38	7757	C	160	Coal
DTEKUA 7 7/8 04/04/18	1,4	40,51	42,10	1,58	63,08	6350	C	750	Coal
EXIMUK 0 02/09/23	0,2	71,85	74,67	2,82	13,72	-	C	125	Banks
EXIMUK 9 3/4 01/22/25	5,4	85,90	86,95	1,06	12,21	1259	CCC	600	Banks
EXIMUK 9 5/8 04/27/22	4,2	88,58	89,75	1,17	12,06	1249	CCC	750	Banks
FXPOLN 10 3/8 04/07/19	2,2	65,42	68,75	3,33	26,07	3007	CC	161	Iron/Steel
INPIP 10 1/4 08/02/17	0,8	30,00	33,72	3,72	118,12	-	C	200	Metal Fabricate
METINV 10 1/4 05/27/16	-	50,26	51,99	1,73	-	-	NR	87	Iron/Steel
METINV 10 1/2 11/28/17	-	49,00	51,00	2,00	-	-	C	296	Iron/Steel
METINV 8 3/4 02/14/18	-	48,00	51,40	3,40	-	-	C	777	Iron/Steel
MHP SA 8 1/4 04/02/20	3,2	87,46	88,51	1,04	11,97	1088	CCC	750	Agriculture
MRIYA 10.95 03/30/16	0,7	7,81	9,09	1,28	120,52	-	WD	72	Agriculture
MRIYA 9.45 04/19/18	0,7	5,33	9,99	4,66	205,19	-	WD	400	Agriculture
OSCHAD 9 3/8 03/10/23	4,8	87,01	88,05	1,04	11,96	1315	CCC	700	Banks
OSCHAD 9 5/8 03/20/25	5,6	85,69	86,67	0,98	12,10	1259	CCC	500	Banks
PRBANK 10 1/4 01/23/18	1,4	69,25	77,00	7,75	27,44	-	CCC	200	Banks
PRBANK 10 7/8 02/28/18	1,5	69,17	73,61	4,43	30,26	2908	CCC	175	Banks
PRBANK 11 02/09/21	3,1	64,00	64,49	0,49	23,72	2190	NR	220	Banks
PUMBUZ 11 12/31/18	2,2	76,51	78,50	1,99	21,67	2956	NR	198	Banks
RAILUA 9 7/8 09/15/21	4,0	87,94	89,61	1,67	12,57	1297	CCC	500	Transportation
UKRLAN 10 7/8 03/26/18	1,1	30,17	33,24	3,07	89,49	8423	WD	500	Agriculture

- We can split corporate universe into three groups:
- Extremely distressed companies like Mriya, Interpipe, Avangard and Ukrlandfarming
- Businesses with high debt level and temporary cashflow issues: Dtek, Ferrexpo, Metinv
- Most stable and safe companies on Ukrainian market: MHP, Exim, Oschad

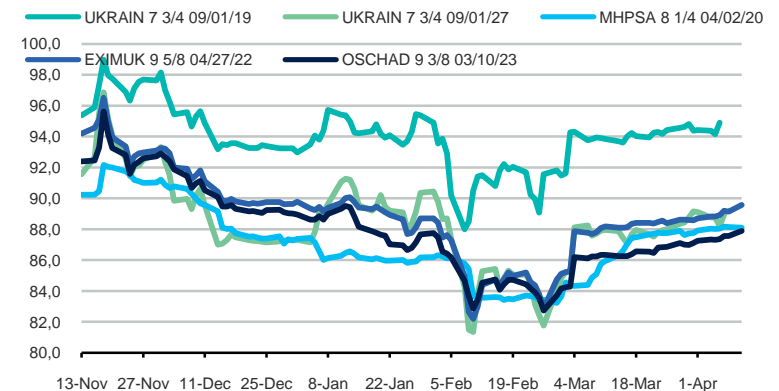
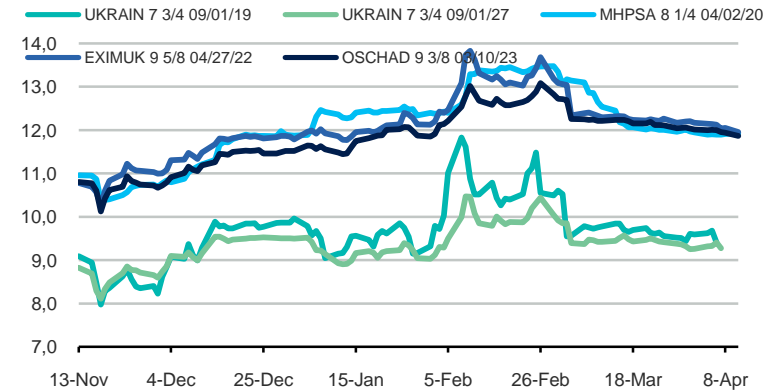
Corporate Eurobond curve



- 8.3 bn size of the nominal value
- 5.5 bn size of net value
- Liquidity remains an issue, but volatility is sharply down
- Government owned bank are the most favorite and liquid issues
- MHP is the strongest issue in terms of credit risk
- Some distressed stories, like DTEK, PUMBUZ and FXPOLN are attractive

Yield and Price Dynamic of corporate bonds

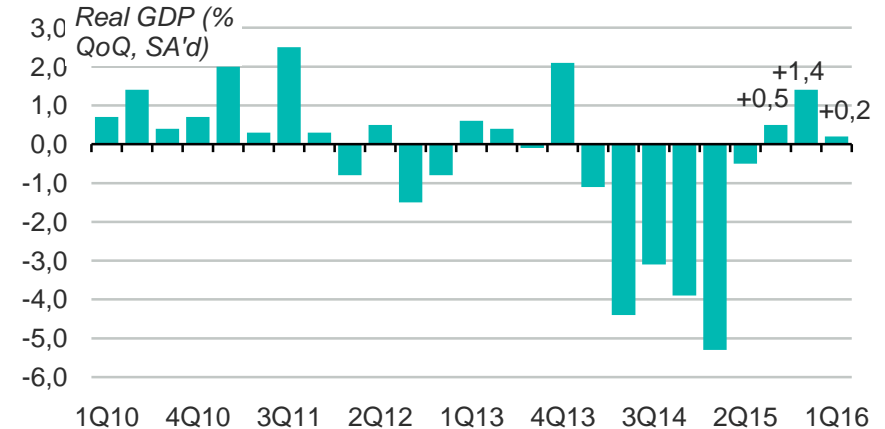
- Following 5 bonds are some of the most liquid on the market
- Prices are a lot less volatile then year ago
- Prices are more dependent on economical situation and political stability of the whole country
- Ukrain19 is the most liquid issue by far
- We expect Sovereign yield to remain in 8-12% range, following mean-reversion pattern in near future. Quasi Sovereign and best corporates are 2% higher



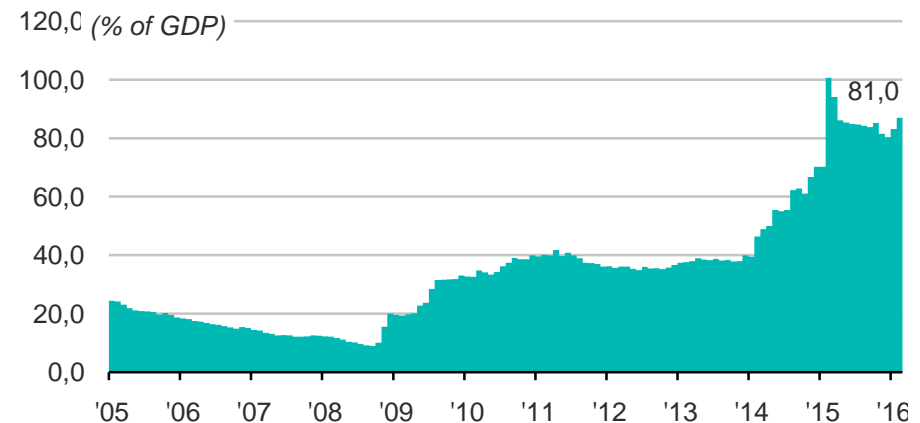
Real GDP and Debt/GDP ratio

- Economy stopped plummeting. Worst four quarters way behind in the past
- We see growth for the last three quarters, despite political uncertainty, double digit inflation and fragile peace in the east. Economy picking up steam
- Debt/GDP down to 81% and falling, less than 94% predicted by IMF
- By 2020, we expected it to be closer to more sustainable 65% or lower
- Reforms undertaken by government showing results

Real GDP, QoQ

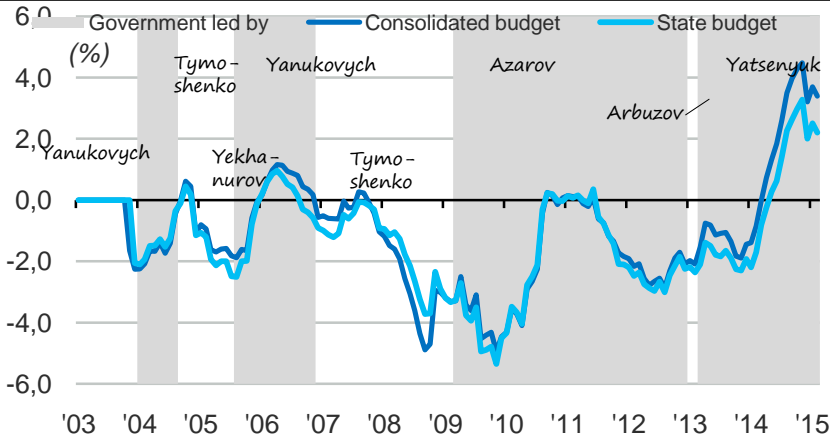


Government Debt to GDP

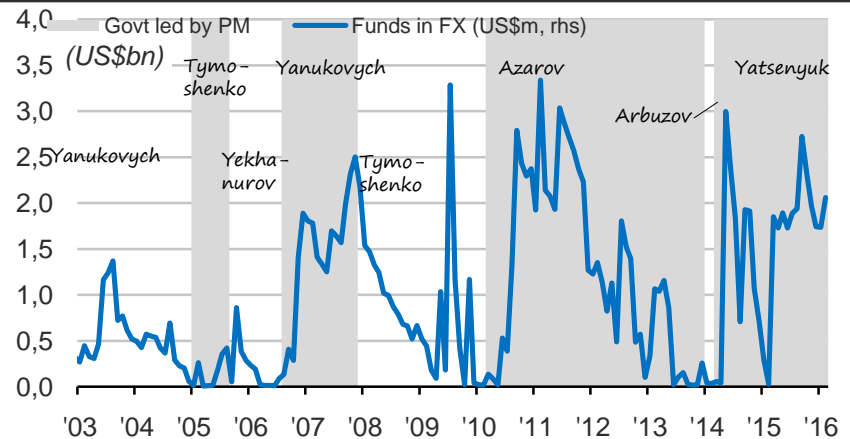


Primary Budget and government FX balance

Primary budget balance



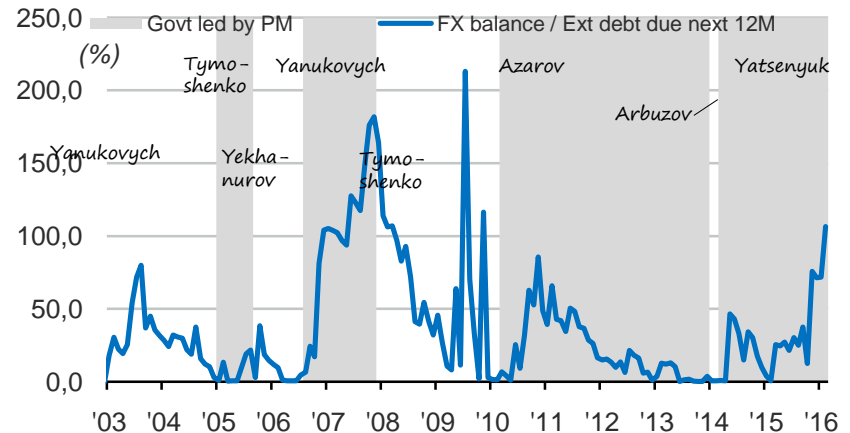
Government FX balance



Key points

- Record primary budget balance at +3.2%
- Government FX account at \$ 1.7bn, up from \$0.03bn on feb 2014
- External debt coverage ratio up to 71% from 1% on feb 2014. It's highest ration since 2010

Government FX balance / Ext debt due next 12M



Key points how to navigate Ukrainian market

- Investors can enjoy great yield on Ukrainian market, however high risks should be properly mitigated.
- Patience. Prices remain in mean-reverting pattern for some time. Wait until your target is reached before get involved.
- Spot loss. Investors can enjoy above average returns, and the stop loss in the key instrument to protect investments in downturn. Investors don't have to liquidate full position once stop loss is triggered, 1/3 is usually enough. Once downturn is confirmed, 1/3 should follow. Remaining part won't kill you.
- Liquidity is the real issue. To stay away from troubles, diversify your portfolio between many bond. It's a lot easier to sell 10mm in 6 different issues then 60mm in one single issue. That way investor should be able to downside their position effectively if stop loss is triggered.
- Monitoring key macroeconomic numbers for Ukraine and countries with similar risk is also important. It provides a good guidance which direction yield should move in the nearest future.