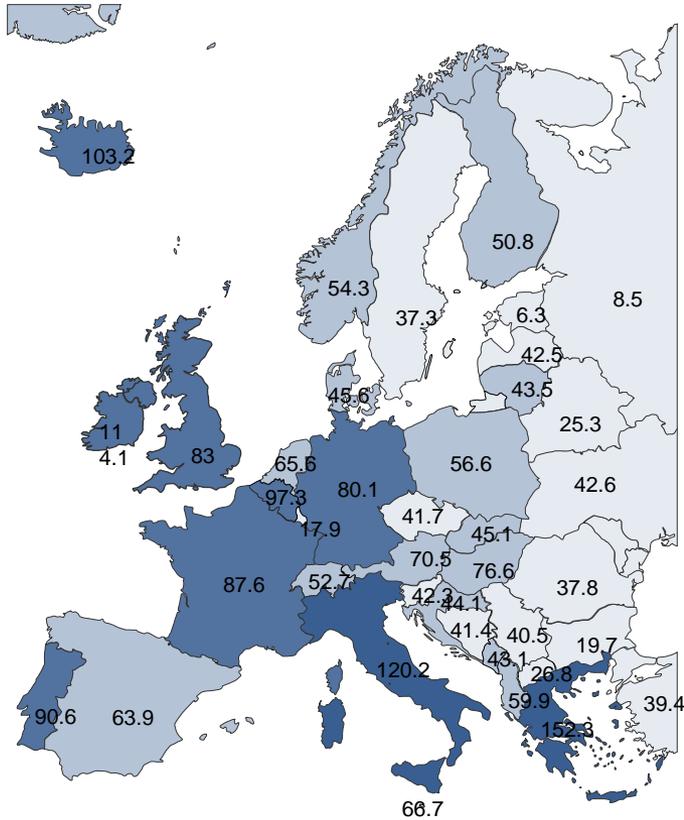


Ukrainian Government Bonds

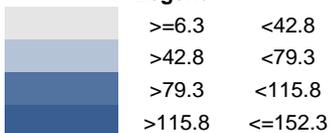
September 16, 2011

Budget deficit and public debt

Public debt, % of GDP, 2011F

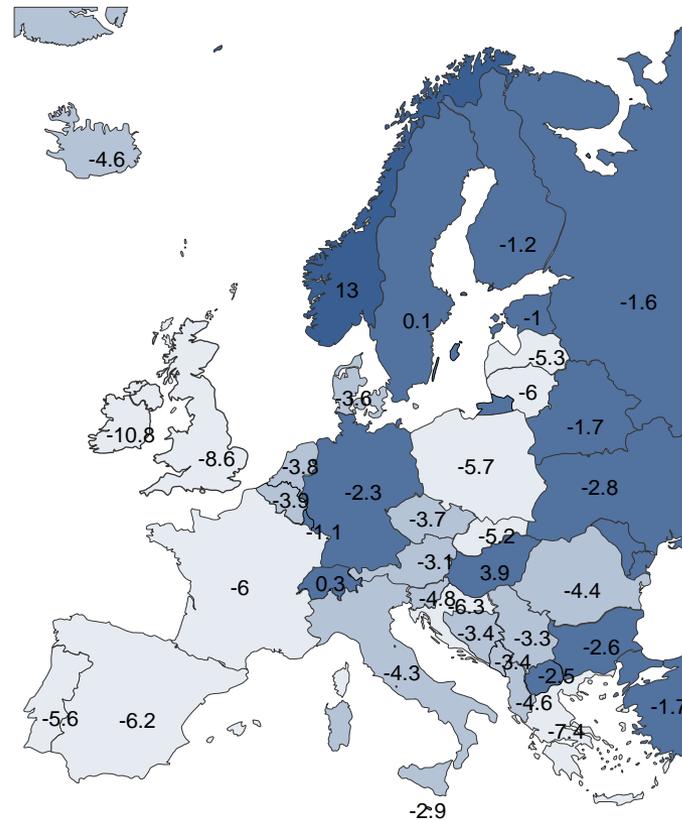


Legend

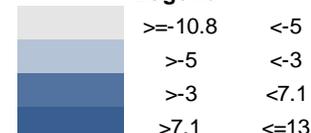


Source: IMF

Budget deficit, % of GDP, 2011F

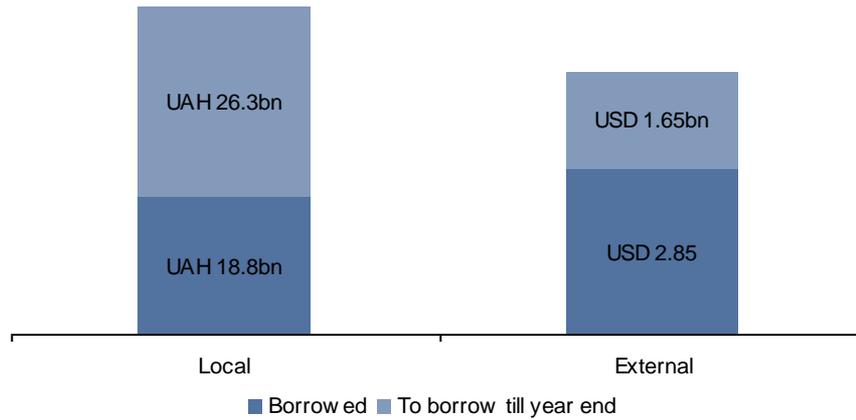


Legend



Financing the deficit

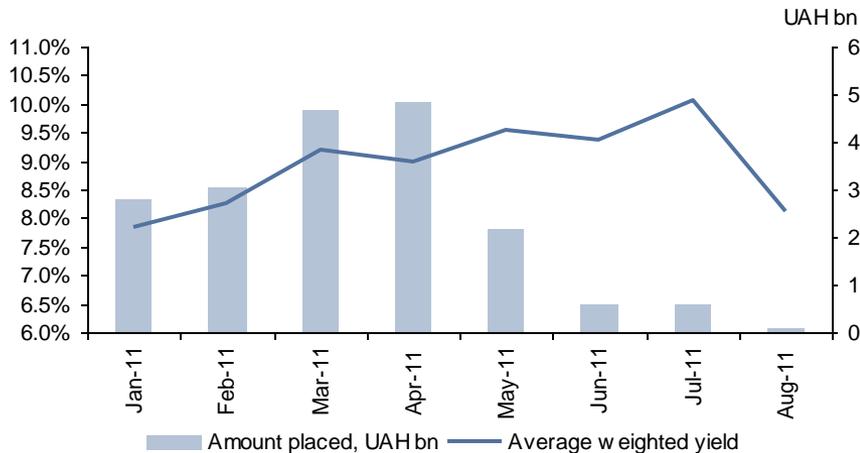
Actual and remaining borrowings



- Government still has not done even half of planned borrowings this year
- Banks have lost their ability to buy government bonds since June due to liquidity crunch
- Balance of payments turned negative which cause liquidity outflows

Source: Erste Group Research

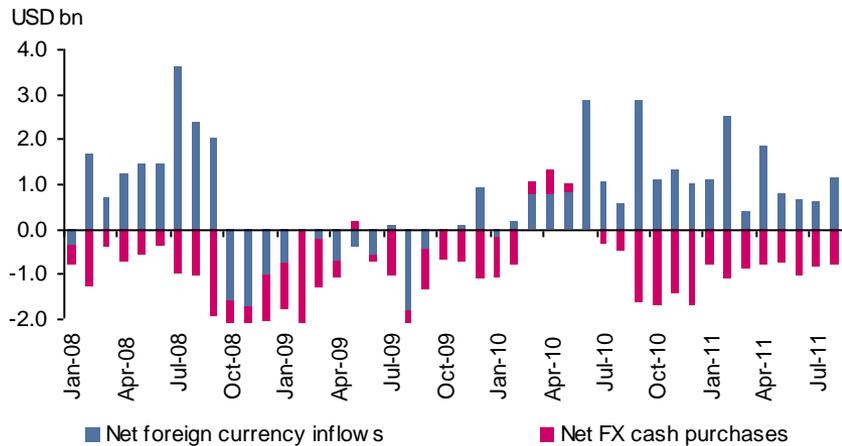
Primary auctions placements



Source: NBU

FX cash demand caused liquidity crunch

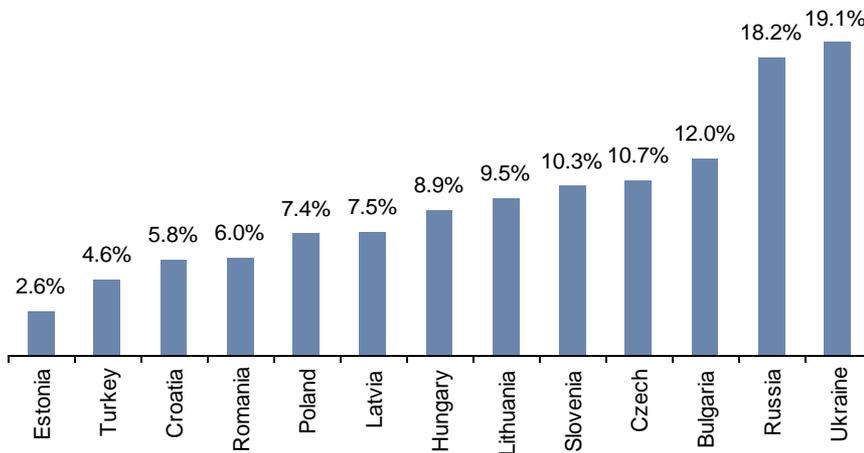
Balance of payments



Source: NBU

- Balance of payments is stable from economical point of view, but all positive inflows are 'consumed' by population savings
- Hryvnia cash in circulation is a constant 'barrel of powder' for exchange rate if sentiment deteriorates
- Hryvnia unlikely to depeg from USD, NBU will keep rate fixed just to avoid run for FX cash

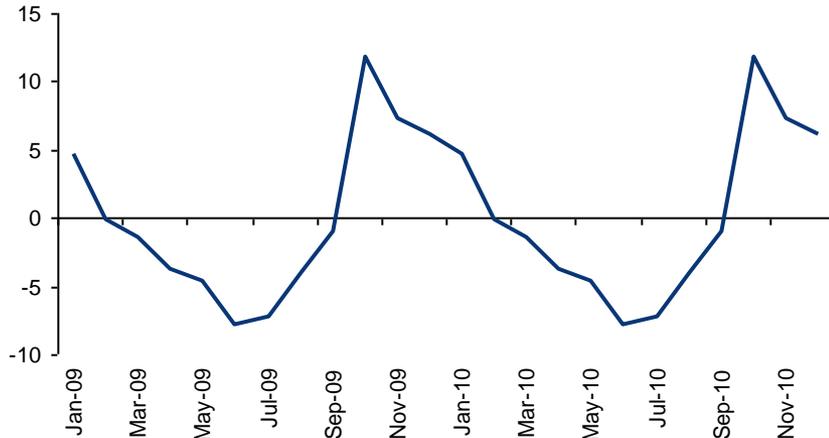
Local currency cash in circulation, % of GDP



Source: NBU, IMF

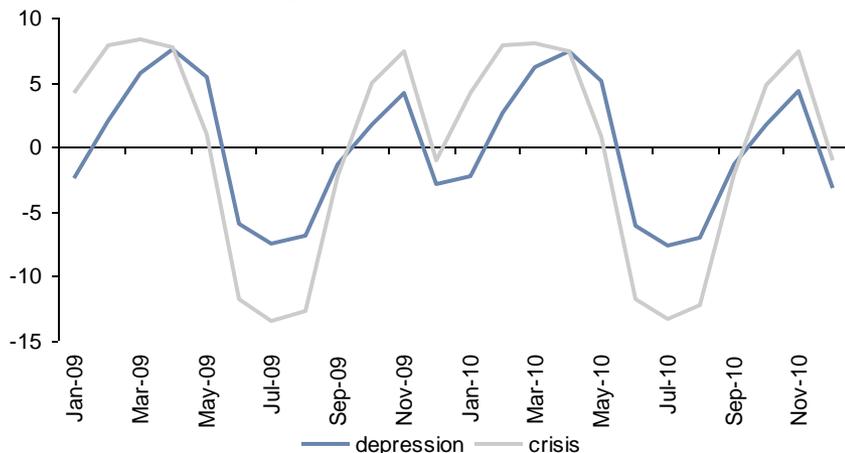
Seasonal crisis fears

Seasonal factor* of google search for 'кризис' (eng. crisis) in Ukraine

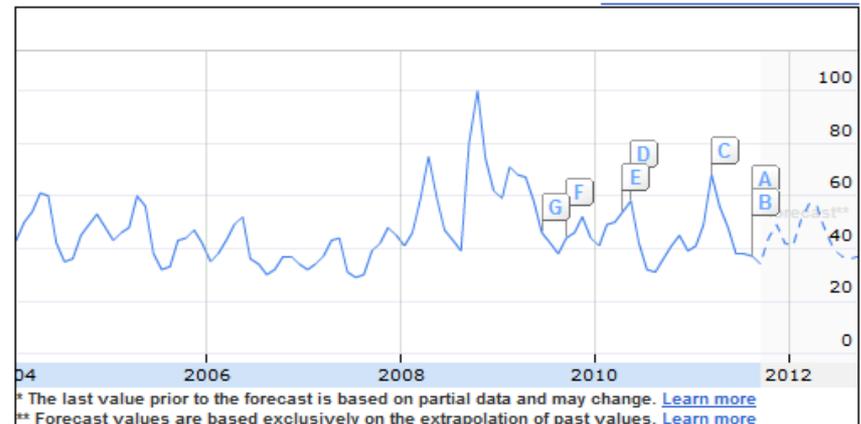


- Autumn is a period of seasonal loss of consumer confidence
- This is also the case for US and any other country of the Northern Hemisphere
- Colder weather results in higher depression and overall pessimism

Seasonal factors* of google search for 'crisis' and 'depression' in United States

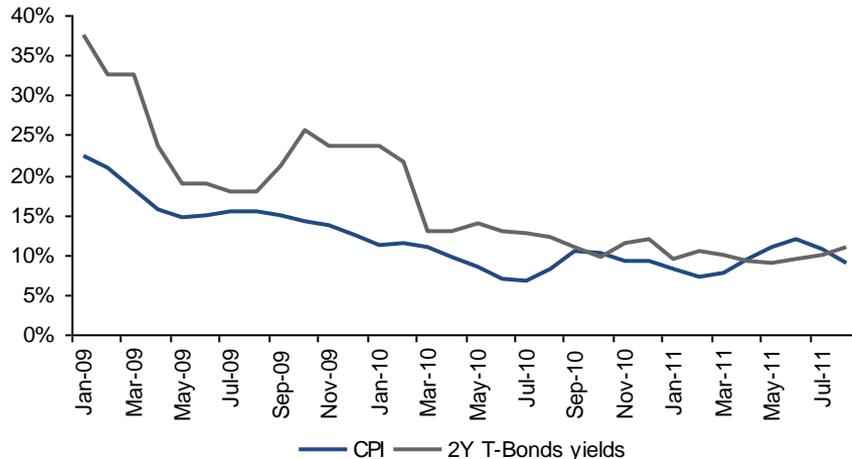


Google search for 'crisis' in United States



Inflation and bond yields

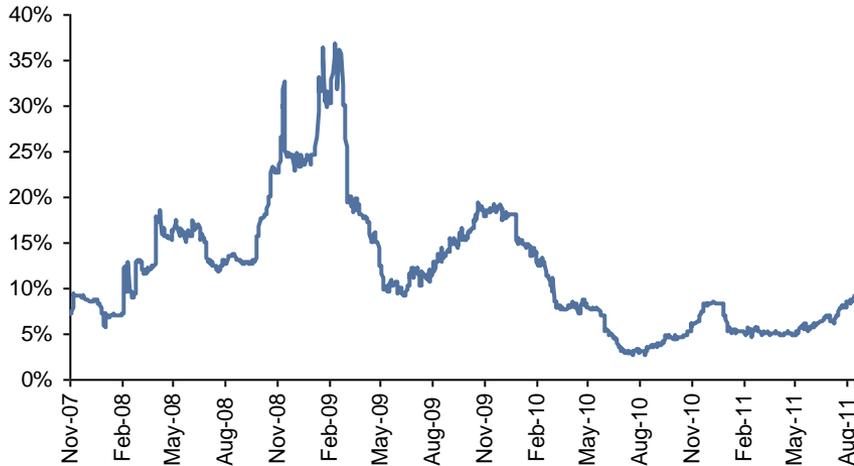
Yields and inflation



- Government bonds yields started to detach from inflation
- Yields will remain elevated during September, October on seasonal spike of crisis fears
- After the seasonal decline in consumer sentiment, liquidity will return to banks and yields will decline

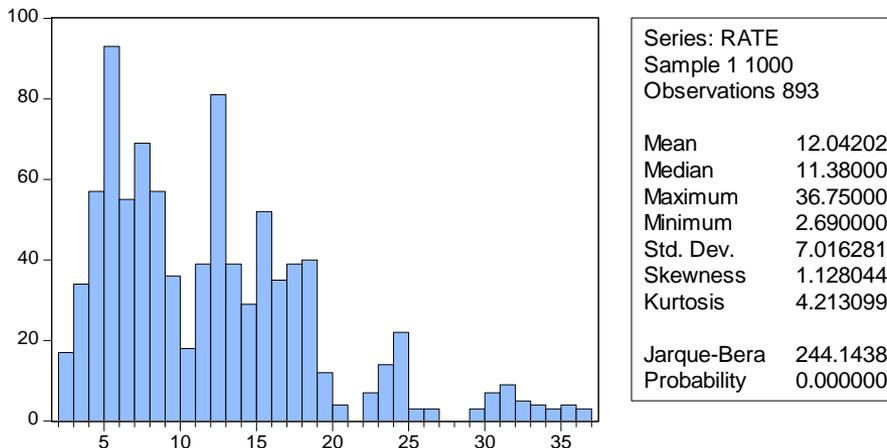
New bonds with Bermuda options

3M rate



- Government introduced bonds with Bermuda options – 5Y bonds with quarterly payments, put options starting from 6th coupon payment till maturity (in 1.5 years from placement)
- **Market has priced Bermuda bond only as regular 1.5 year in maturity without the options value and MoF accepted bids!**

Distribution of 3M rate



| Bond specification | |
|--------------------|--|
| ISIN | UA4000106181 |
| Currency | UAH |
| Issue date | 18-Jan-11 |
| Maturity | 13-Jul-16 |
| Volume issued | UAH 680mn |
| Coupon rate | 9.5%, fixed |
| Option type | Bermudan, put option every quarter since 18-Jul-2012 |

Scheduled placements on primary auctions:
 18-Oct-11
 8-Nov-11
 20-Dec-11

Summary

- After a seasonal decline in consumer confidence and rise in yields during Autumn, yields should start to decline
- Should there be no significant global crisis events hryvnia will remain fixed towards the USD, thus Ukrainian government bonds should provide a high yielding USD investment while EU dependant countries currencies loose in value
- New type of instruments, especially bonds with Bermudan put options are especially attractive instrument as both MoF and market failed to put a proper price on the bond